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Place-Based Perspectives on the UK Industrial Strategy

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Introduction

Dr Felicia Fai, Associate Professor of International Business and Innovation at the University of Bath

On 27 November 2017, the UK government published the White Paper *Industrial Strategy: building a Britain fit for the future*; it was welcomed across the board for being the most explicit recognition of the need for strategic government intervention in the growth and development of the UK economy and industry in decades. After the perceived failures of vertical industrial strategy in the 1970s which sought to ‘pick winners’ and national champions, followed by the failure of *laissez-faire* approaches in the late 20th century with largely horizontal industrial policy initiatives, the new industrial strategy strives to find a point of balance between the two. It seeks to provide horizontal support to create a better business environment, but also includes vertical policy support in the form of sector deals and four broader grand challenges that aim to nurture a better society.

The outcome of the UK’s referendum on its membership of the EU acutely highlighted the discontent of swathes of the British population with the extent to which they benefit from the UK government’s centrally determined plans for economic growth and development. In part, the Brexit vote was a response to the wide and long-standing regional imbalances in the UK economy. Consequently, on becoming Prime Minister, Theresa May pledged to make the UK “a country that truly works for everyone”¹. In order to do this, greater attention to the specific contexts and needs of places across the UK, particularly outside of London and South East England, is necessary. Place has become one of the ‘five foundations of productivity’ as identified in the White Paper:

The UK has greater disparities in regional productivity than other European countries. This affects people in their pay, their work opportunities and their life chances. Every region in the UK has a role to play in boosting the national economy...We are working with our partners in the devolved administrations to deliver ambitious plans for communities across Scotland, Wales and Northern Ireland.... We will also continue to build the Northern Powerhouse and Midlands Engine to help create prosperous communities throughout the UK... We will introduce Local Industrial Strategies and further strengthen local leadership through Local Enterprise Partnerships and Mayoral Combined Authorities.²

1. Theresa May (2017) Foreword from the Prime Minister. *Industrial Strategy: Building a Britain fit for the Future*. HM Government, p4.

2. *Ibid* p216.

Despite the raised profile of the importance of ‘place’ (throughout the White Paper, numerous cross-references to the (final) chapter on place are made) the actual chapter on ‘Places’ lacks clarity, specificity and novelty. Indeed, it largely summarises initiatives and efforts that were already in motion prior to the publication of the White Paper. Critically, the White Paper also makes almost no mention of the impact of Brexit on these units of ‘place’.

This policy brief provides specific views about the White Paper from experts in regional economic studies on each of the units of place identified in the above quote³; from the macro-units of devolved administrations, through meso-level units of the Midlands Engine and the combined authorities, to more micro-units at the level of local enterprise partnerships and even firm-level defined notions of place. What becomes clear across the contributions is a sense of frustration that there seems to be little beyond the usual rhetoric to bring about truly devolved powers to more local geographies despite the increasingly complex layering of devolved units of place.

The policy brief opens with a chapter by Professor Kevin Morgan that explores the position of the devolved administrations of Wales and Scotland. The experience of these administrations with respect to their input into the Brexit negotiations and the post-Brexit situation leaves them feeling unheard by Westminster. It adds to their feeling that power and decision-making are being recentralised in Whitehall and that the proposed new Shared Prosperity Fund will only further restrict the abilities of the devolved parliaments to implement industrial strategy appropriate to their specific contexts.

Dr Leslie Budd considers industrial strategy from the perspective of Northern Ireland and maintains that the poor historical experiences of the region with respect to industrial strategy have created a certain lock-in to a sub-optimal pathway in its economic development. Without greater consideration of the border issues with the Republic of Ireland post-Brexit – within the formulation of industrial strategy for Northern Ireland – this path-dependency is unlikely to be overcome.

In the English-specific context, devolution of power takes a range of different forms. Gill Bentley examines the Midlands Engine, the second supposedly autonomous supra-regional governance structure after George Osborne’s promotion of the Northern Powerhouse. She reports that the Engine is a brand, a marketing tool to rally participants, and an initiative. However, it is not an institution representing a meso-level of devolved governance. What it truly represents is a delegation of the administration of national policy to the sub-national meso-scale.

Following on from this, Dr Felicia Fai provides an overview of the six mayoral combined authorities in England and identifies the fit between their ambitions for their own local priorities and those identified in the industrial strategy paper. Whilst the fit between ambitions at the

3. Other units of place also exist, including local authorities, district councils and boroughs – but as a focal device, this policy brief chooses to look only at those units of place identified in the Industrial Strategy White Paper, November 2017.

meso-level of the combined authorities and that at the national level are good, she suggests that there are doubts as to whether the ambitions can truly be realised, particularly in light of the impact of Brexit on the ability of the mayoral authorities to deliver on the five foundations of ideas, people, infrastructure, business environment and places.

Moving to the micro-level, Dr Felicia Fai and Dr Phil Tomlinson present findings from primary research conducted with ten local enterprise partnerships in the immediate wake of the White Paper's publication. Similar to the combined authorities, given the rationale for their creation in the first instance, 'place' resonates strongly with local enterprise partnerships. However, a lack of government attention since December 2017 has left them with no guidance as to how they should develop the local industrial strategies they are expected to formulate – nonetheless, they are all eager to be among the first for approval in March 2019. Additionally, concerns about the reformulation of funding sources as the UK loses access to the European Structural and Investment Funds programme and the continued austerity measures affecting local councils creates uncertainty about how effectively local enterprise partnerships will be able to deliver place-based growth in the future – especially given their barriers of scale.

Finally, despite the various layers and units of place observed by the government, the vernacular is based very much on cities – 'smart cities', 'city regions' and clusters. As such, there remain many 'places' to which the Industrial Strategy speaks very little. Regions dominated by rural or coastal communities – or which have reasonable agglomerations of diverse industrial activity but with no identifiable sectoral or technological foci that resonate with those set out in the Industrial Strategy – require more consideration for truly inclusive growth. The chapter by Paul Hildreth offers an academic perspective on how to define a place at the level of firm networks which may help to extend policy thinking beyond the definitions of place we currently have, and be more inclusive of less high-profile or peripheral spaces in future.

In this policy brief, the multiple critical perspectives on the government's attempt to create an industrial strategy that will give rise to a 'country that will work for everyone' all suggest that whilst the devolution of power from Whitehall is apparently an objective for the government, its actions (or lack thereof) and the potential implications of Brexit on each layer of place (which are completely neglected in the White Paper) suggest that the devolution of power away from Westminster has been rather limited to date and further devolution is unlikely to happen in the near future.

Industrial Strategy and the Celtic Nations: A Perspective from Scotland and Wales

Professor Kevin Morgan,
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Introduction

The Industrial Strategy has been launched at a time of heightened place-based politics because Brexit has triggered new territorial dynamics. Although it heralds a new **external** relationship with the European Union, Brexit also entails a new **internal** territorial relationship because it affects the inter-governmental arrangements between the nations of the UK, raising questions about the integrity of the devolution settlements. Indeed, the First Ministers of Scotland and Wales are so concerned about the centralisation of political power that they issued a joint response to the EU (Withdrawal) Bill, saying it was “a naked power-grab, an attack on the founding principles of devolution and could destabilise our economies”¹. In short, the industrial strategy debate has become inextricably linked to the Brexit debate because the latter affects the former in two ways. First, Brexit involves the repatriation of powers from the EU to the UK and some of these powers – with respect to regional policy, agri-food policy and environmental policy for example – could be transferred to Whitehall even though they are all critical to place-based economic development policy, which is a devolved competence. Second, these political conflicts over Brexit have soured relations between the devolved administrations and Whitehall to such an extent that the level of inter-governmental trust has plummeted to an all-time low, making it that much more difficult to secure the multi-level partnerships and information-sharing arrangements on which the Industrial Strategy is predicated.

1. Welsh Government (2017d) Joint statement from First Ministers of Wales and Scotland in reaction to the EU (Withdrawal) Bill, Welsh Government, 13 July.

Is There Enough Devolved Power to Support a Place-Based Industrial Strategy?

“One aspect of the talent question is the Scottish desire to recruit and retain more international students, a goal stymied by the UK Government’s decision to include foreign students in the net migration figures”

Two radically different territorial narratives currently co-exist in the UK. The official narrative is clearly embodied in the Industrial Strategy White Paper, which highlights the progress that has been made in recent years in devolving power – both to the devolved administrations in the Celtic nations and to mayoral combined authorities and local enterprise partnerships in England. For all the progress, critics maintain that the UK remains one of the most centralised countries in the Organisation for Economic Co-operation and Development (OECD) group, so much so that this is the most significant constraint on locally-driven place-based strategies². Although the devolved administrations have been the greatest beneficiaries of devolution in the UK, they are acutely aware of the constraints on their ability to pursue a bolder, more integrated economic development strategy.

The Scottish Government’s own industrial strategy revolves around its ‘four Is’ – investment, innovation, inclusive growth and internationalisation. While it enjoys devolved powers in these areas, it nevertheless maintains that the key powers to support business and shape the structure of its economy “remain reserved to the UK Government”³. It is especially concerned about its lack of fiscal powers and wants to enhance its powers to secure **patient capital**, which it deems essential to all aspects of the UK Industrial Strategy. To address the problem, the Scottish Council of Economic Advisers has called for new institutional vehicles – such as national investment or promotional banks – to provide a range of patient capital including microfinance, loans, equity and guarantees⁴. Aside from patient capital, the Scottish Government also feels constrained by the lack of powers to determine talent and trade flows. One aspect of the talent question is the Scottish desire to recruit and retain more international students, a goal stymied by the UK Government’s decision to include foreign students in the net migration figures – a doubly damaging decision because it denudes the labour market of scarce skills at home and depletes the UK’s ‘soft power’ abroad. As regards trade, the Scottish Government remains vehemently opposed to withdrawing the UK from the Single Market, which it estimates will cost Scotland some £12.7 billion by 2030 under the worst case scenario of a WTO-style Brexit deal⁵.

The Welsh Government’s own industrial strategy – the Economic Action Plan – revolves around a number of calls to action and three

2. Martin, R. et al (2015) *Spatially Rebalancing the UK Economy: The Need for a New Policy Model*, Regional Studies Association.

3. Scottish Government (2015) *Scotland’s Economic Strategy*, Scottish Government, Edinburgh, page 78.

4. Council of Economic Advisers (2017) *UK Government Green Paper: Building Our Industrial Strategy*, Scottish Government, Edinburgh.

5. Scottish Government (2018) *Scotland’s Place in Europe: People, Jobs and Investment*, Scottish Government, Edinburgh.

“The institutional capacity of the three Welsh development regions essentially revolves around regional groupings of local authorities”

targeted thematic sectors: tradeable services, high-value manufacturing and enablers such as digitalisation and renewable energy⁶. As in Scotland, the Welsh Government feels constrained by its lack of powers in key priority sectors, particularly with respect to rail infrastructure and clean energy. The UK Government’s decision to abandon part of the rail electrification programme in Wales (on the Cardiff-Swansea line) underlined the Welsh Government’s lack of powers over rail investment decisions. As regards clean energy, one of the priority projects in Wales – the Swansea Bay Tidal Lagoon – has been delayed for more than a year despite the fact that an independent review appointed by the Department for Business, Energy & Industrial Strategy strongly endorsed it⁷. Like its Scottish counterpart, the Welsh Government predicts that Brexit will have a debilitating impact on trade and talent flows because Welsh exports are inordinately dependent on the EU market – while the recruitment and retention of talent will be rendered more difficult in a post-Brexit environment⁸. Nearly 20 years of devolution have left Scotland and Wales almost powerless to influence the fundamentals of fiscal policy, trade policy and overseas student recruitment policy, all of which are highly pertinent to the UK Industrial Strategy.

Institutional Capacity Gaps and the UK Industrial Strategy

Although Scotland and Wales are often thought to be well-endowed with institutional capacity for economic development, at least relative to the sub-national realm in England, this may be more apparent than real so far as Wales is concerned. Whereas Scotland retained Scottish Enterprise to spearhead its place-based economic development strategy, the Welsh Government abolished the Welsh Development Agency (WDA) more than a decade ago and has struggled ever since with the lack of place-based institutions. To fill the vacuum left by the WDA the Welsh Government recently launched a new “regionally focussed model of economic development” based on three development regions in North Wales, Mid and South West Wales, and South East Wales. These three regions are loosely based on the two city-regions in the south – Cardiff Capital Region and Swansea Bay Region – and the North Wales Growth Deal consortium in the north, each of which will liaise with a Chief Regional Officer in the Welsh Government who is charged with the coordination of government activities in each region. As things stand, Wales has neither a national enterprise agency as in Scotland nor a locally-based LEP structure as in England.

The institutional capacity of the three Welsh development regions essentially revolves around regional groupings of local authorities, a

6. Welsh Government (2017b) *Prosperity for All: Economic Action Plan*, Welsh Government, Cardiff.

7. Hendry, C. (2016) *The Role of Tidal Lagoons: Final Report to Department of Business, Energy and Industrial Strategy*, BEIS, London.

8. Welsh Government (2017a) *Securing Wales’ Future: Transition from the European Union to a New Relationship with Europe*, Welsh Government, Cardiff.

weaker version of the combined authority model pioneered in England. The most mature of the three development regions is the Cardiff Capital Region (composed of ten local authorities) which recently invested nearly £38 million in a new compound semiconductor foundry in the hope of nurturing a compound semiconductor cluster in association with a group of local firms and a new UK Compound Semiconductor Applications Catapult Centre, the first such catapult in Wales. This is a high-risk project for a region that was badly burned by its last foray into semiconductors, when an inward investment project involving South Korea's LG Electronics proved a costly failure.

For all their differences Scotland and Wales share a wider and deeper problem with respect to the UK Industrial Strategy, which is that their research and development capacity is highly oriented to the higher education sector rather than the business sector – so much so that Scottish critics have argued that universities have 'captured' the innovation policy agenda in Scotland⁹. If the UK Industrial Strategy seriously wants to promote **local innovation ecosystems** then the latter will need to integrate supply-side and demand-side capacities to avoid the danger of innovation funds getting trapped in university science silos, which is what tends to happen in less-developed regions where strong universities co-exist with weak business sectors¹⁰.

Sector Deals: Calibrating the Place-Based Approach with a Sectoral Focus

One of the most challenging features of the UK Industrial Strategy is how to calibrate a **place-based** approach with a **sectoral** focus since both place and sector are conduits for allocating public funds. To some extent this is a false binary because sectors are not placeless entities: indeed, what may appear to be a spatially-blind sector deal in principle can, in practice, be a *de facto* place-based deal when the key firms are clustered in certain locations – like the traditional automotive sector in the Midlands, financial services in London and the life sciences cluster in the golden triangle, for example.

Sector deals tend to play to existing strengths and this constitutes a major dilemma for poorer regions and nations, which lack the critical mass, the political traction and the social network connections through which such deals are aired and developed in bilateral exchanges with the UK Government.

The political challenge of calibrating place and sector is perfectly illustrated by the private exchange between Ken Skates (Economy Minister in the Welsh Government) and Greg Clarke (Secretary of State for Business, Energy and Industrial Strategy (BEIS)). In the wake of the

9. Brown, R. (2016) Mission Impossible? Entrepreneurial universities and peripheral regional innovation systems, *Industry and Innovation* 23(2), pp.189-205.

10. Marques, P. and Morgan, K. (2018) The Heroic Assumptions of Smart Specialisation: A Sympathetic Critique of Regional Innovation Policy, in A. Isaksen, R. Martin, & M. Trippel (Eds.) *New Avenues for Regional Innovation Systems*. New York: Springer.

Green Paper, but ahead of the White Paper, Skates wrote to Clarke to say that the new ways of working around place and sector should in no way compromise the devolved competence of the Welsh Government because “the devolution settlement must be fully respected”. If the Industrial Strategy is to be a success, he said, we need assurance that “cross-border issues will be managed in a spirit of equal partnership, respecting the competence and accountability of each government and good practice in inter-governmental relations”. But the limited nature of the feedback from BEIS is all too clear from the fact that Skates felt obliged to ask Clarke for the most basic information about the criteria for sector deals, saying: “It would be helpful for us to understand more fully the proposed ‘mechanism’ for developing and reaching deals”¹¹.

In the event the White Paper clarified the criteria for a successful sector deal, which revolve around how the proposed deal will contribute to the success of the sector, how it will meet the goals of the Industrial Strategy (like boosting productivity, investment and earning power) and whether it is aligned with the Grand Challenges.

But the White Paper could have been clearer about the significance of place, because the most robust academic evidence suggests that productivity differences vary enormously within sectors – and this variability is largely due to city-specific, within-sector factors, which underlines the need for an industrial strategy that “treats place not just as an additional ‘pillar’, but as a key organising arena within which the different elements of an industrial strategy can be integrated and fashioned for maximum impact...This requires an appropriate nationwide geographical network of regional or urban region economic/ industrial bodies”¹². In other words, place should be the overarching and integrating theme in the industrial strategy, not simply a theme among many others.

Place-Based Strategies in the Post-Brexit Era

Place-based strategies need to be locally embedded and globally engaged to avoid falling prey to parochialism, group-think and nativism. Working in a more concerted way at multiple spatial scales will be imperative for the cities, city-regions and nations of the UK because Brexit poses both economic threats and political challenges – neither of which are acknowledged in the Industrial Strategy White Paper, which is ideologically fixated on the alleged opportunities of EU withdrawal. From the perspective of the devolved administrations, however, there is an urgent need to fashion new quasi-federal governance structures to ensure that the common frameworks for the post-Brexit period respect their devolution settlements. Because the

11. Skates, K. (2017) Letter to Greg Clarke, Secretary of State for Business, Energy and Industrial Strategy, 20 April.

12. Martin, R. et al (2017) *Cities and the National Productivity Problem: Evidence Submitted to the UK Government's Industrial Strategy Green Paper Consultation*, University of Cambridge, Cambridge, page 10.

Welsh Government is more committed to the future viability of the UK as a multi-national state – since its Scottish counterpart is wedded to the cause of independence for Scotland – it is worth focusing on its proposals for a new constitutional settlement to govern the UK's polycentric political system.

In its White Paper on Brexit, the Welsh Government called for the establishment of a constitutional convention to review constitutional arrangements and practice within the UK because, it says, “the scale of change which will flow from leaving the EU demands that the UK is remodelled around new, more federal, structures”. Its concerns are twofold: (i) the impact of repatriated powers on the powers that are currently devolved to Wales and (ii) the impact on Wales of the reserved powers, such as competition policy, employment law and international trade, all of which will continue to be the function of the UK Government. New agreements will need to be designed to govern the UK internal market and the Welsh Government has proposed a number of key principles:

- The free consent of the three devolved legislatures and administrations to participate on equal terms with the UK Government, representing the interests of England.
- A model which retains at least the current levels of flexibility to implement policies tailored to the specific need of each nation.
- Robust and genuinely independent arbitration mechanisms to resolve any disputes over the compatibility of individual policy measures in one nation with the agreed frameworks. This will require wholly new inter-governmental machinery for (a) enabling UK-wide frameworks for devolved matters where the four administrations agree that a common approach is needed; and (b) ensuring robust shared arrangements in respect of matters that are not devolved but which have major implications for devolved functions¹³.

To oversee these reforms the Welsh Government also proposed that the existing Joint Ministerial Committee (JMC) could be over-hauled and rebuilt into a UK Council of Ministers covering the policies for which agreement between all four UK administrations is required – policies that are critically important to the Industrial Strategy, like common frameworks on UK state aid, public procurement, labour market regulations and welfare reform among many others. Although the Welsh Government tends to be seen as far less radical than its Scottish counterpart, these post-Brexit proposals would give the UK the look and feel of a federal state so far as the Celtic nations are concerned; but this still begs the question as to what a federal system means for the devolution

13. Welsh Government (2017a) *Securing Wales' Future: Transition from the European Union to a New Relationship with Europe*, Welsh Government, Cardiff, page 26.

of power **within** England^{14,15,16}. Whitehall would need to change its attitude to joint governance mechanisms like the JMC because, in the eyes of the Scottish and Welsh Governments, it has shown little interest in them to date because it has no respect for them.

Radically reformed joint governance mechanisms – like a UK Council of Ministers – would seem to be necessary to resolve inter-governmental disputes within the Industrial Strategy because the latter's five themes straddle such a wide array of policy domains. Joint governance mechanisms are also necessary to resolve disputes about policies that are complementary to, but separate from, the Industrial Strategy – like the proposed UK Shared Prosperity Fund and the EU programmes with which the UK Government wants to engage after Brexit, like the framework programmes for research and innovation.

Although the Industrial Strategy White Paper is replete with references to collaboration between Whitehall and the devolved administrations, there has been little or no dialogue with the Scottish and Welsh Governments over the shape of the UK Shared Prosperity Fund, the ostensible surrogate for the European Structural and Investment Funds programme. This issue – concerning the future shape of regional policy in the UK – could trigger a major inter-governmental crisis because one of the devolved administrations has already said: “We explicitly and vigorously reject any notion of a UK centralisation of regional economic development policy, including the creation of a Whitehall-managed UK Prosperity Fund”¹⁷.

At one level, joint governance mechanisms are operational fora to design and manage common policy frameworks; but at another level, they are intensely political arenas in which different views, values and interests are negotiated and decided by coalitions of power. One of the key issues to be resolved in the Industrial Strategy will be the role of the state, and this is likely to expose deep political tensions between the social democratic values of the Scottish and Welsh Governments and the neoliberal proclivities of the (current) UK Government. Managing these tensions will be one of the great challenges of the post-Brexit era, not least because the territorial integrity of the UK as a multi-national state could stand or fall on its ability to secure unity-in-diversity.

14. Blick, A. and Jones, G. (2010) *A Federal Future for the UK: The Options*, Federal Trust, London.

15. Morgan, K. (2002) The English Question: Regional Perspectives on a Fractured Nation, *Regional Studies*, 36(7), pp. 797-810.

16. Morgan, K. (2007) The Polycentric State: New Spaces of Empowerment and Engagement? *Regional Studies*, 41(9), pp. 1237-1251.

17. Welsh Government (2017c) *Regional Investment in Wales after Brexit*, Welsh Government, Cardiff, page 21.

Northern Ireland: A Case Study of Path-Dependent Industrial Strategy

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Introduction

Any discussion of the performance and potential of the Northern Irish economy, and the role that industrial strategy may play in increasing its socio-economic capacities and capabilities, is inextricably bound up in its broader political economy – which is complex and intriguing. One could say that it politically punches above its weight, given the context and conjuncture of its history within the UK; on the other hand, it economically punches below its weight when we consider its special position bordering one of the European Union's (EU) most dynamic economies over the last few decades. The collapse of the power-sharing agreement in January 2017 led to an interregnum in which the Northern Ireland Executive and Assembly, currently, does not meet. The power, institutional and policy vacuum has weakened the position of Northern Ireland in dealing with the socio-economic consequences of Brexit. There appears to be a parallel here with the current UK government, in that interregnum has substituted for governance as negotiations over Brexit seem to have overwhelmed the policy process in many spheres of government. With regard to its more powerful neighbour the Republic of Ireland, the degree of misunderstanding of the scale and scope of economic co-operation across the island of Ireland is acute. The consequences of the damage likely to be inflicted by Brexit on both economies is not well understood in Westminster or Belfast. Moreover, there is also a profound confusion on how the Good Friday Agreement underwrites public policy in a number of ways. In particular, how it guarantees the socio-economic basis of equality rights for all citizens in both parts of Ireland¹. In the recent fudge in the negotiations over regulatory equivalence in the post-Brexit relationship between Northern Ireland and the Republic of Ireland, the crucial role

1. See McCrudden, C. (2017) *The Good Friday Agreement, Brexit and Rights* Dublin: Royal Irish Academy Policy Discussion Paper; and October and Daly, C (2017) *Brexit and the Irish Border: Historical Context*, Dublin and London: Royal Irish Academy/British Academy Brexit Briefing, October.

“The complex situation of the Northern Ireland economy suggests that there may be a logic to producing and implementing a national industrial policy”

of the Good Friday Agreement in public policy was downplayed. Yet in any formulation of industrial strategy that affects cross-border relations, it is **the** defining policy framework.

The negotiations to re-establish power-sharing in Northern Ireland have been made more complex by the confidence and supply agreement, under which the Democratic Unionist Party (DUP) supports the current administration in Westminster. Part of that agreement involves central government funding for Northern Ireland of £1bn per annum over the two years of its duration. Yet, this extra funding is less than the combination of EU and Barnett Formula funding; the former would be lost with the latter being uncertain post-Brexit. Alongside the condition that funding from the confidence and supply agreement would not be fully forthcoming in the absence of a re-instatement of power-sharing at the Northern Ireland Executive and Assembly, the economy has become more vulnerable due to current uncertainty. This is an important part of the context, as is the performance and potential of the Northern Ireland economy and the role that industrial strategy may play in increasing its socio-economic capacities and capabilities.

The Context of the Northern Ireland Economy

The complex situation of the Northern Ireland economy suggests that there may be a logic to producing and implementing a national industrial policy. In the light of the negative impact of uncertainty following the referendum of June 2016 and the current political and governmental stasis in Northern Ireland, it could be argued that the province validates the Oates Theorem² – that is, more decentralised/federal systems tend to promote greater economic growth and equality. But, in light of the relatively small size of the Northern Ireland economy and its population, and that its economic governance is cross-cut by the rest of the UK and the Republic of Ireland (and not forgetting the rest of the EU), an autonomous industrial strategy may make little sense. Given the need for a much more synergistic approach, if the Irish border question is to be addressed comprehensively and effectively, then a greater coherence in the formulation and implementation of industrial strategies may be needed in all three governmental territories.

The Relative Performance of the Northern Ireland Economy

Northern Ireland accounts for just under 3% of the UK’s population and approximately 1.5% of its Gross Domestic Product (GDP); roughly the same population as the Milton Keynes sub-region, but two-thirds of the GDP. Its close linkages to the Republic of Ireland, however, make up for some of this relative weakness. Most economic commentators have suggested that the Northern Ireland economy will suffer the most damage from Brexit. Decomposing from estimates of the loss of UK

2. See Oates, W.E (1993) *Fiscal Decentralization and Economic Development*, Working Paper no.93-4 College Park, MD: University of Maryland.

GDP to 2030 of between 2.5% and 6%, the loss to the Northern Ireland economy is likely to be in the range of 3.7% to 7.3%, depending on the final Brexit deal – and especially the resolution of the border issue in the latter case³. The recently leaked government papers on the impact of various scenarios associated with Brexit suggest that over 15 years, growth would be 2.5% lower under European Economic Area (EEA) membership; 8% lower under a UK-EU free trade deal; and 12% lower under a World Trade Organisation (WTO) trade regime. The current challenges include:

“Whilst most of these challenges are not uncommon to other regions outside London and Southeast England, how they emerge from the region’s historical, geographical and political characteristics is unique”

- GDP per head that remains below that at the start of the global Financial Crisis in 2008, and at just under 80% of UK average over the long run.
- The presence of a long tail of small, mainly family-owned firms with low productivity that drags down the aggregate performance of the economy to 14% below the UK average.
- Economic activity rates for the 18-24 group, which tend to be consistently lower in Northern Ireland than the rest of the UK.
- An under-supply of science, engineering and technology skills that appears historically path dependent.

Whilst most of these challenges are not uncommon to other regions outside London and Southeast England, how they emerge from the region’s historical, geographical and political characteristics is unique. Table 1 below sets out the relative growth performance of the Northern Ireland economy with forecast adjusted rates for both before and after the referendum result.

Table 1: GDP annual growth rates for Northern Ireland, UK and Republic of Ireland pre- and post-Brexit vote adjustments in parentheses 2014–18 (%)

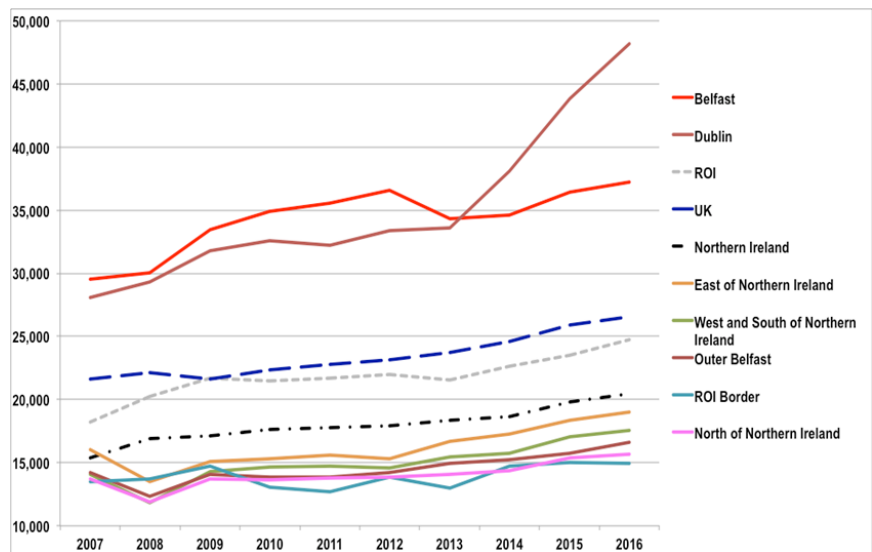
	2014		2015		2016		2017		2018	
	NI	UK	NI	UK	NI	UK	NI	UK	NI	UK
GDP Growth	2.8 (2.2)	2.4 (2.9)	2.9 (1.5)	2.2 (2.3)	2.6 (1.2)	2.6 (1.8)	1.8 (1.0)	2.7 (1.6)	1.5 (0.8)	2.5 (1.4)
Rol	7.1 (6.0)		6.7 (7.8) ⁴		7.2 (4.5)		7.7 (3.3)		8.6 (4.0)	

3. See NIESR for UK effects and Budd (2015) and (2017) for Northern Ireland effects. See Kara, A. and Young G. (2017) ‘Prospects for the UK economy’ *National Institute Economic Review* No. 242 November; Budd, L. (2015) *The Consequences for the Northern Ireland Economy if the United Kingdom Exits the European Union* Committee for Enterprise Trade and Investment (CET) Northern Ireland Assembly Briefing Note 3/15, Belfast: Northern Ireland Assembly; and Budd, L. (2017) ‘Stalling or Breaking? Northern Ireland’s economy in the balance’ in D.Bailey and L.Budd (eds) *The Political Economy of Brexit*, Newcastle; Agenda Publishing.

4. This figure is a revised estimate following the claim by the CSO that readjusted the measure of investment in increased GDP by 26% in 2015. Paul Krugman termed this adjusted “leprechaun economics”.

In the last quarter of 2017, GDP shrank slightly in Northern Ireland with output remaining 6% below the pre-financial crisis peak, compared to a 10% gain for the rest of the UK economy. The combination of the 'unknown unknown' of the final Brexit outcome (which is more complex for Northern Ireland than the rest of the UK), as well as the current political interregnum, further exacerbate a tendency to economic under-performance that appears to be increasingly path dependent. There is also a regional dimension to this performance as shown in Figure 1 below.

Figure 1: Gross value-added per head in Northern Ireland, the Republic of Ireland, the UK and selected sub-regions, 2007-2016 (£ current prices)⁵



The regional picture is instructive, in that the peace dividend following the Good Friday Agreement has created greater economic growth and activity in the border region of Northern Ireland⁶. The border region of the Republic of Ireland has developed less, partly as a result of the imposition of austerity after the Eurozone crisis, but also due to the increased dominance of Dublin as it recovers to be a leading European business and financial services city. Dublin's recovery is likely to accelerate as some of this sector's activities shift from the UK, depending on the post-Brexit settlement. There is a similar situation with the urban dominance of Belfast surrounded by poor economic hinterlands. It is apparent that rebalancing both economies beyond their capital cities in the island of Ireland should be a major objective of industrial strategies. This conclusion is pertinent in relation to solving the border issue, and crucial to the success of any future EU/

5. Source: CSO (2017) *Regional Economic Statistics*, Dublin: central Statistics Office. ONS (2017) *Regional Trends*, London: Office for National Statistics.

6. See evidence given by Dr Katy Hayward to House of Commons Northern Ireland Affairs Committee on the land border between Northern Ireland and Ireland 27 October 2017 <https://goo.gl/XB6jUc>

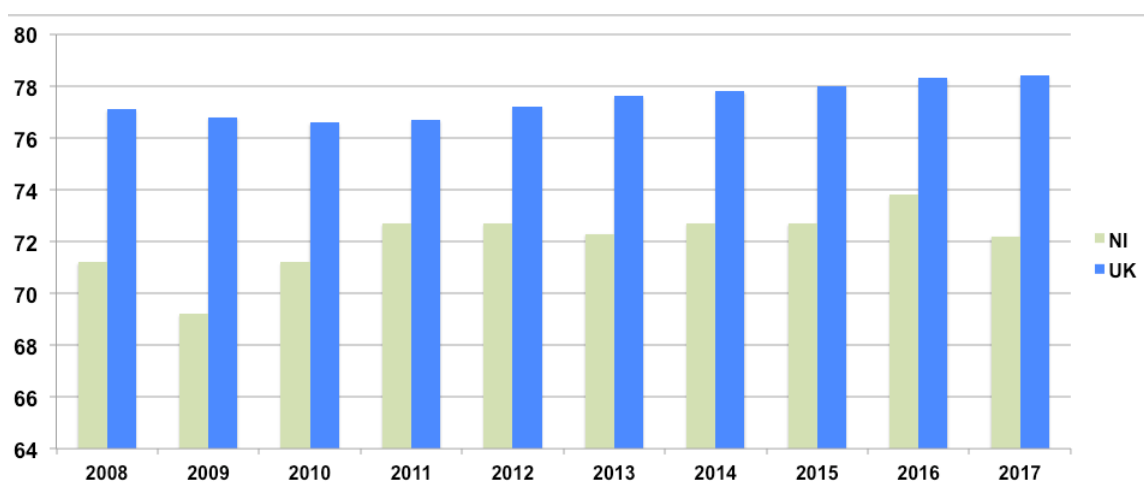
UK relationship post-Brexit. The issue of the border goes beyond just managing customs or trade to affect the gamut of cross-border transactions and co-operation, including how UK industrial strategy can address the economic challenges of Northern Ireland.

With respect to labour markets, Table 2 and Figure 2 below set out what appears to be an economic stasis that may be becoming path dependent. As stated above, Northern Ireland has not fully recovered from the external shock of the global financial crisis and now faces the impact of another shock. The productivity puzzle in the UK impinges upon Northern Ireland, so that relative economic activity rates have changed little over the last decade.

Table 2: International labour organisation unemployment rate (all aged 16 plus %)⁷

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
NI	4.4	6.4	7.1	7.2	7.4	7.5	6.4	6.1	5.8	5.1
UK	5.7	7.6	7.9	8.1	8.0	7.6	6.2	5.3	4.9	4.4

Figure 2: Economic activity rates, UK and Northern Ireland 2008-17⁸



The productivity issue is also a function of weakening research and development expenditure that declined in real terms by 3.4% between 2015 and 2016. The productivity paradox confronting the UK has elicited much comment that focuses mainly on real wage stagnation; labour skills and education; and below-trend rates of investment and research and development. These accounts have tended to overlook the role of process innovation, especially the quality of management, and of institutions that could underwrite the increased levels of the above factors. In this context, the key question is the degree to which

7. Source: ONS (2017) *Labor Market Survey*, London: Office for National Statistics.

8. *Op cit.*

an industrial strategy for Northern Ireland contributes to the institutional architecture that can address the path-dependent tendency to economic stasis.

The Potential Contribution of Industrial Strategy to Northern Ireland

In considering the potential contribution of industrial Strategy to Northern Ireland, the historical antecedents are not promising. The fundamental challenge for industrial policy seems not to have changed since this 1957 quote:

...in some respects the most interesting and important question relating to the economy of Northern Ireland is not why industrial growth has not been greater – why the growth in income and employment has tended to lag behind that in Great Britain – but why it has been as great as it has⁹

One explanation lies in the history of structural weaknesses in the Northern Ireland economy that have created a path-dependent problem¹⁰, from which a path-dependent policy response has emerged as detailed below.

A Brief History of Structural Weaknesses and Policy Responses in Northern Ireland

- The 'second industrial revolution' of the 1880s and after by-passed Northern Ireland, whilst the overlap between Ulster's business and political elite truly became entrenched at this time.
- In the 1930s, the new consumer durables industries that emerged across the UK did not evolve as major industries in Northern Ireland.
- The aftermath of the Great Depression damaged Northern Ireland more than the rest of the UK, and economic modernisation was constrained by the overlapping relationship between its political and economic spheres.
- In the immediate post-WWII era, the dominance of linen and shipbuilding sectors further limited economic modernisation.
- Whilst industrial subsidy was used to expand into new industrial projects, this created a path-dependent industrial policy reliant upon financial assistance.
- In the 1960s any prospects for industrial modernisation were overshadowed by the onset of 'The Troubles'.

9. Isles, K.S. and Cuthbert, N. (1957) *An Economic Survey of Northern Ireland*, Belfast: HMSO.

10. For more detail see Graham Brownlow's excellent scholarly analysis, for example: Brownlow, G. (2007) 'The causes and consequences of rent-seeking in Northern Ireland, 1945-72', *Economic History Review* vol. 60, issue 1, 70-96 and Brownlow, G. (2015) 'Back to the failure: an analytic narrative of the De Lorean debacle'. *Business History*, Vol. 57, No. 1, 155-181.

- In the 1970s there was an attempt to ‘pick winners’, but these were often no more than vanity projects: the US car company DeLorean and Cyril Lord Carpets, for example.
- In the 1980s, the switch was towards institutional re-organisation and subsidy through capital grants, partly to offset the impact on businesses of The Troubles¹¹.

By the late 1980s, activist industrial policy fell out of favour generally across the EU, with Northern Ireland following the general trend of focusing on competitiveness. Yet the embrace of this discourse tended to reinforce a process of continuity as subsidy and capital grants remained the main instruments of industrial policy in Northern Ireland. In the case of the shipbuilder Harland and Wolf, it survived through a beneficial subsidy regime and a restructuring away from traditional heavy-industry activities.

Devolution to Northern Ireland created the conditions for another re-organisation of industrial policy with the creation of Invest Northern Ireland, but merely sustained the path dependency on (often poorly directed) subsidies. Some ‘winners’ were created, but a long tail of losers remains as the competitiveness discourse did not address the fundamental issue of productivity. The benefits of the Good Friday Agreement have yet to be translated into a new institutional geography in which the proximity of business networks to the political elites will no longer be no longer advantageous.

Economic Strategy Priorities for Sustainable Growth and Prosperity: Building a Better Future (2012) by the Northern Ireland Executive, was fairly comprehensive and attempted to address the twin problems of the path dependency of the economy and industrial policy by focusing on re-balancing the economy. The key priorities were to:

- Stimulate **innovation, research and development and creativity** to widen and deepen the export base;
- Improve the **skills and employability** of the entire workforce so that people can progress up the skills ladder, thereby delivering higher productivity and increased social inclusion;
- Compete effectively **within the global economy** and be internationally regarded as a good place to live and do business;
- Encourage **business growth** and increase the potential of local companies, including within the social and rural economies; and
- Develop a modern and sustainable **economic infrastructure** that supports economic growth.

This was to be achieved by promoting the high value-added MATRIX sectors that make up 80% of export and 77% of business expenditure

11. See Brownlow, G. (2017) ‘Industrial Policy in Northern Ireland: Past, Present and Future’ paper presented to *The Regional Dimensions to Industrial Strategy* Citizenship & Governance Strategic Research Area, Open University/Urban and Regional Economics seminar Group Workshop, Belfast: Open University 29 September for more detail.

on research and development in Northern Ireland:

- Telecommunications and ICT
- Advanced materials
- Life and health sciences
- Advanced engineering
- Agrifood

Support from related business and financial services underpins these sectors. The strategy also recognises the contribution of the apparently secondary sectors including the creative industries, tourism, social economy and rural economy. The latter closely relates to agrifood, an internationally tradable sector through global value chains that cross cut Irish, UK and EU borders. It is also a large employer and of cultural and political significance in the essentially rural economy of the island of Ireland.

The consultation document for the successor to the 2012 Strategy, *Economy 2030*, appears to return to path dependency in its underlying commitment to competitiveness, with a nod in the direction of inclusive growth. Yet, in the long list of objectives there is no mention of the dominant contingency of Brexit or the wider context of any post-island of Ireland settlement or future relations with the EU. The priorities under the headings of the five foundations of the strategy are set out in Figure 3 overleaf. How these priorities are to be achieved is an open question as the strategy is long on ambition but short on the agency of delivery. There is still a commitment to lowering corporation tax to 12.5% from April 2018, and to be tax competitive with the Republic of Ireland – but as evidenced elsewhere, lower corporation tax as **the** driver of foreign direct investment is another policy canard¹². Brexit will also make this policy change irrelevant to addressing the strong and ongoing challenges facing the Northern Ireland economy.

The main focus of *Economy 2030* is benchmarking the competitiveness of the Northern Ireland economy against a number of small advanced economies. These are Denmark, Estonia, Finland, Israel, New Zealand, Scotland, Singapore and the Republic of Ireland. Yet, with the exception of Scotland, they are all sovereign national economies and have similar populations – with the exception of Estonia, which is nearer that of Northern Ireland. It could be argued that Estonia, Finland and the Republic of Ireland are effectively regional economies because of their Eurozone membership, but they have far greater fiscal discretion – something Northern Ireland and Scotland do not have. Moreover, these national economies have different capacities and capabilities due to different industrial structures. So a more realistic benchmark would

12. As Nicholas Shaxson points out, the driver of the 'growth engine' in the Republic of Ireland was membership of the Single European Market (SEM) from 1993, not corporation tax rate. See Saxson, N. (2012) *Treasure Islands: Tax Havens and The Men Who Stole World*, London: Vintage. For a more thorough analysis of devolved CT in Northern Ireland, see: Committee for Enterprise, Trade and Investment (2016) *Opportunity for Excellence: The Report in the Committee's into Growing the Economy and Providing Jobs with Lower Corporation Tax*, Belfast: CETI, Northern Ireland Assembly.

be the complementary and contingent relationship with Scotland and the Republic of Ireland. Figure 3 below gives the overall strategic priorities of the *Economy 2030* Framework for Growth.

Figure 3: Framework for Growth¹³

Area	Priorities
Accelerating Innovation and Research	<ul style="list-style-type: none"> • Our firms competing on the basis of their innovation across all sectors of the economy • A culture which supports, prioritises and celebrates innovation, creativity and entrepreneurship • Thousands more Northern Ireland companies engaging in innovation • Agile government able to respond quickly and appropriately to the needs of industry • A more entrepreneurial public sector • A place where innovation, creativity and entrepreneurship are embedded across our entire education system, supporting skills development to meet the needs of industry
Enhancing Education, Skills and Employability	<ul style="list-style-type: none"> • An education system that provides our young people with the skills for life and work • Access to timely, relevant and comprehensive careers advice • Help for those furthest away from work • A high quality, efficient and responsive system for delivering professional and technical skills • A pipeline of graduates who have the skills, knowledge and capabilities to excel • A strong and relevant supply of skills for economic growth
Driving Inclusive, Sustainable Growth	<ul style="list-style-type: none"> • A more enterprising region • A higher level of business start-up activity with an emphasis on technology and high potential start ups • Growth in sectors and technologies where we have strengths and capabilities • Prosperity across the region • An economy where an increasing number of businesses scale up employing more people in the process
Succeeding in Global Markets	<ul style="list-style-type: none"> • A strong global presence as the location of choice to invest, do business with, visit, study and live • Competing globally through trade by driving improvements in our commercial success in overseas markets • Competing globally for investment by promoting across the world as the top United Kingdom region from which to do business • Competing globally as a destination by strengthening our international reputation to attract investment, develop strategic partnerships, grow tourism and attract key events
Building the Best Economic Infrastructure	<ul style="list-style-type: none"> • Key investments in energy, water, transport and connections, digital communications, waste disposal networks and facilities • Prioritising our investment projects to provide the physical and digital connectivity to enable our business to thrive globally • Recognising our major cities and population centres as drivers for economic growth and supporting this through investment in our infrastructure • Investment in better access to major population and business centres and rural hinterlands through our strategic road and public transport network

13. *Economy 2030. A consultation on an Industrial Strategy for Northern Ireland*. Figure 1, p.9
<https://goo.gl/obNjyS>

Where Do We Go from Here?

There appear to be three Cs required of any public policy framework: coherence, consistency and commitment. This applies to an industrial strategy for Northern Ireland, but as a significant complicating factor, the application of the three Cs needs to be complementary to the Republic of Ireland and rest of the UK at the same time. The scale and scope of cross-border cooperation, foreign direct investment, trade and research suggest that there is (effectively) already an all-Ireland single market, with some frictions due to transactions costs of currency movements and different tax regimes. This single market is underwritten in large part by the conditions of the Good Friday Agreement, which will be broken if there is a hard border re-imposed post-Brexit. It is apparent that without settling the Irish question, which includes a reinstatement of power sharing, any Northern Ireland industrial strategy will be ineffectual. It will also represent a lost opportunity to overcome the historical path dependency of industrial policy in Northern Ireland by addressing the path dependency of the economy. The most recent contributions to industrial strategy formulation notwithstanding, there is expertise and capacity within the Northern Ireland civil service to promote an institutional policy architecture for a more contingent industrial strategy – moreover, an industrial strategy that corresponds to the three Cs – but it will necessarily be cross-border and cross-Irish Sea, in the context of a coherent post-Brexit settlement. One starting point is to align the foundations of industrial strategy in all three key territories and explore the appropriate institutions to deliver the objectives of industrial strategy. There is already a precedent in the joint funding of inward investment programmes across the whole of Ireland, as well as all-Ireland wholesale electricity. Financing infrastructure to support internationally exposed and cross-border economic transactions may require new co-operative institutions, for example an all-Ireland investment bank to compensate for the loss of access to EU funds for Northern Ireland.

The uncertainty of Brexit means that industrial strategy and further devolution is the only game in town if the economic damage of exiting the EU is to be minimised. In the case of Northern Ireland, co-operation with the Republic of Ireland in settling the border question is crucial if the path dependency link between the economy and industrial policy is to be overcome. In this context, a comprehensive three Cs industrial strategy will be an imperative – but one that will have to be formulated and operated in the context of the Republic of Ireland and the rest of the UK, within their future relationship with the EU.

Territory, Policy and Governance at Meso-Scale? The Midlands Engine

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Introduction

The Midlands Engine is a government initiative¹ launched in late 2015, in the wake of the establishment of the Northern Powerhouse in 2014. The Midlands Engine brings together a swathe of major cities found in the counties across middle England and seemingly presages the emergence of an autonomous supra-regional governance structure, to reflect the idea that there exists a functional economic geography at a meso-scale that requires economic management². However, does the reality reflect the idea? A number of questions arise: to what extent does the strategy for the Midlands Engine tessellate with the national Industrial Strategy? How does it relate to strategies at sub-regional level? What might be the interaction between the different scales of sub-national governance and the national level? How can what the place-based approach embodies, in a strategy at the meso-scale, be reconciled with the proposal for sector deals? Is there really enough devolved power from Westminster for the UK to achieve its ambitions for place-based industrial strategy? What more is required?

The findings of this chapter suggest that this meso-scale of governance does not represent a re-territorialisation of policymaking but is in fact a regionalisation of national policy, representing a delegation of the administration of national policy to the meso-scale. Nonetheless, it can be argued that it represents an attempt by central government to co-ordinate industrial policy across different scale geographies of production and consumption to achieve a place-based industrial strategy. However, given that the Midlands Engine does not hold an executive

1. The Midlands Engine can be defined as an initiative, a strategy, a brand and a partnership.

2. Lee N (2017) Powerhouse of cards? Understanding the "Northern Powerhouse". *Regional Studies*. 51:3, pp 478-489.

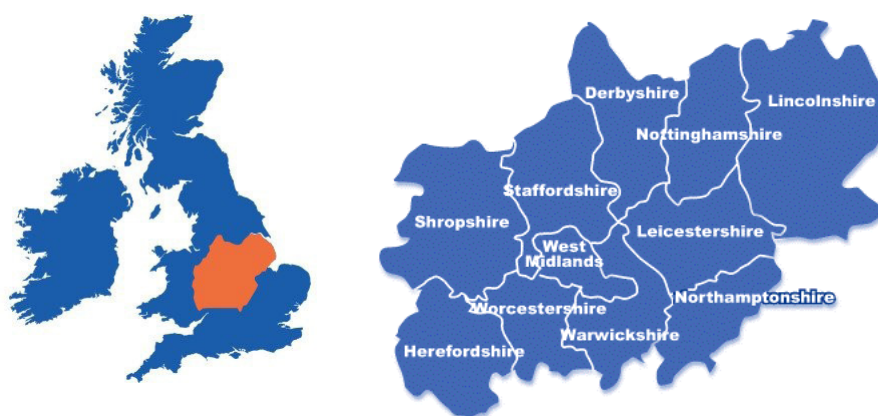
function, but represents a marketing tool to rally and sell³ the opportunity to implement a nationally determined strategy to sub-national policy actors, the Midlands Engine could dematerialise⁴ through a lack of powers and resources to undertake action.

Background to the Midlands Engine

Stretching from Wales to the North Sea and the northern home counties to the Peak District, the Midlands Engine territory hosts the cities of Hereford, Worcester, Birmingham, Wolverhampton, Stoke-on-Trent and Coventry in the west and Nottingham, Derby, Leicester and Lincoln in the east (See Figure 4). It contains 11 local enterprise partnerships (LEPs), 28 local authorities and the West Midlands Combined Authority, plus businesses, universities and further education colleges. It is home to a population of 11.5 million people (15% of the UK), of whom 4.3 million (15.7%) are in employment⁵. With an economy worth £230bn, its industrial base of 440,000 large and small businesses is marked by globally significant advanced manufacturing, four catapult centres, major multi-national research and development-intensive companies and strong supply chains, particularly in automotive and aerospace engineering⁶. Growing by 18% over the last five years, one issue for the economy is that it continues to under-perform nationally; productivity is lower than the UK average gross value added per worker⁷.

“Growing by 18% over the last five years, one issue for the economy is that it continues to under-perform nationally; productivity is lower than the UK average”

Figure 4: The Midlands Engine Territory^{8,9}



3. Insider organised a Midlands Engine Summit for Growth in November 2017, to promote the opportunity for businesses to participate in and benefit from the Midlands Engine. Further events are planned. <https://goo.gl/swXRws>

4. Andrews M (2017) The Midlands Engine – is it grinding to a halt? *Shropshire Star* 22 August <https://goo.gl/Bwhb3q>

5. DCLG (2017) *Midlands Engine Strategy* London: Department of Communities and Local Government.

6. DCLG (2017) *Midlands Engine Strategy* London: Department of Communities and Local Government.

7. DCLG (2017) *Midlands Engine Strategy* London: Department of Communities and Local Government.

8. Source of UK map: <https://goo.gl/2NJ5FG> Accessed 09/02/18.

9. Source of Midlands Engine Regional Map: <https://goo.gl/KoLhZx> Accessed 09/02/18.

Whose Strategy is it Anyway?

“While it might be expected that the Engine itself would devise a strategy or programme of action directed towards addressing issues at this scale, the Midlands Engine Strategy was in fact written by central government”

It is clear that there are policy issues, for example, transport, that traverse sub-national local authority boundaries within the Midlands Engine area that require the co-ordination of actions at a meso-scale. Much work has been carried out by Midlands Connect, an adjunct organisation to the Midlands Engine, towards devising a transport strategy for the territory. Work has also been carried out on innovation and investment, and other cross-cutting issues, by and on behalf of the Midlands Engine. While it might be expected that the Engine itself would devise a strategy or programme of action directed towards addressing issues at this scale, the Midlands Engine Strategy was in fact written by central government¹⁰. Launched in March 2017 in Wolverhampton by the Chancellor of the Exchequer, Phillip Hammond, the Midlands Engine Strategy was quite categorically designed to build on the Industrial Strategy, the Green Paper having been published in January 2017¹¹ (See Appendix I for a timeline of the Midlands Engine). It can be argued that this portrays the government as acting **for** the Midlands¹².

The priorities identified in the Midlands Engine Strategy are listed below. They reflect priorities listed in the ten pillars of the Green Paper on Industrial Strategy (See Appendix II). Plans were also announced to give £392m through the Local Growth Fund for the LEPs to invest, £20m for a Midlands Skills Challenge and £250m for a Midlands Engine Investment Fund to help small businesses expand, the latter managed and administered under the auspices of the British Business Bank¹³. The Midlands Trade and Investment programme, which was already underway, was highlighted at the event, some £7bn-worth of projects having been presented to investors at the MIPIM property conference in Cannes in March 2017.

The Priorities of the Midlands Engine Strategy¹⁴

- 1. Improving connectivity** in order to raise productivity.
- 2. Strengthening skills** in order to make the Midlands a more attractive location for businesses.
- 3. Supporting enterprise and innovation** in order to foster a more dynamic regional economy.

10. DCLG (2017) *Midlands Engine Strategy* London: Department of Communities and Local Government.

11. DCLG (2017) *Midlands Engine Strategy* London: Department of Communities and Local Government; BEIS (2017) *Building Our Industrial Strategy: Green Paper* London: BEIS.

12. Lee N (2017) Powerhouse of cards? Understanding the “Northern Powerhouse”. *Regional Studies*. 51:3, pp 478-489.

13. British Business Bank (2017) *Spotlight: The Midlands Engine Investment Fund* Sheffield: The British Business Bank.

14. Source: DCLG (2017) *Midlands Engine Strategy* London: Department of Communities and Local Government. p.7.

- 4. Promoting the Midlands** nationally and internationally in order to maximise trade and investment in the region.
- 5. Enhancing quality of life** in order to attract and retain skilled workers, as well as to foster the local tourist economy.

That the Midlands Strategy was written in the light of the Green Paper on the Industrial Strategy, and the Midlands Engine will be required to adhere to national policy priorities, is not surprising. Although the Engine was set up to help the region compete with London and the South East, as well as the Northern Powerhouse, it is also to act as a 'growth engine' for the UK and to contribute to the growth of the national economy¹⁵. Programmes and funds have been handed as largesse to the locality through the Midlands Engine with the Engine welcoming what was seen as both a sector-based and a place-based approach to securing growth. In responding to the Green Paper on the Industrial Strategy, Sir John Peace, Chair of the Midlands Engine, affirmed the Engine's commitment to work with central government to deliver on the programmes derived from the Industrial Strategy¹⁶. The Engine identified the need for collaborative governance but also for sufficient financial resources to be able to deliver on the Strategy.

With a nationally determined strategy, this appears to somewhat limit the ability of the Midlands Engine to display leadership and devise its own strategy. However, the Engine as a body nonetheless had scope to ensure that decisions and actions could reflect meso-level concerns¹⁷. The Midlands Engine responded to the government's Midlands Strategy by publishing *The Midlands Engine Vision for Growth*¹⁸. This identified five priority areas and five packages of work where it suggests the Midlands Engine could add value in driving productivity growth through collaboration. These are:

- 1. Connect the Midlands** – maximise new technologies to deliver a radical transformation of Midlands connectivity.
- 2. Invest in Strategic Infrastructure** – invest in the most sustainable and advanced technology to deliver the infrastructure to meet future business and resident needs.
- 3. Grow International Trade and Investment** – grow trade and investment in new markets to create jobs in a global economy.

15. Handley L (2017) What is the Midlands engine and what will it do for the region? *The Guardian* 18 April.

16. Peace J (2017) *Response of the Midlands Engine to HM Government's Green Paper Building our Industrial Strategy* Nottingham: Midlands Engine.

17. It should be noted that, at its launch, the Midlands Engine published a Prospectus (Midlands Engine, ND). It appears to have been produced as a result of discussions between the Government (the minister was the Rt Hon Sajid Javid MP, then Secretary of State for Business, Innovation and Skills) and Midlands Engine partners.

18. Midlands Engine (2017) *The Midlands Engine Vision for Growth: Our Response to the Government's Midlands Engine Strategy* Nottingham: Midlands Engine.

- 4. Increase Innovation and Enterprise** – create the environment where strengths identified in the Science and Innovation Audit can be maximised to benefit the whole region and help create successful growth businesses.
- 5. Shape Great Places** – promote the Midlands as a great place to live, visit, learn and work.

In addition to the five work packages, the Midlands Engine put forward two local priorities: skills and devolution, which it says are to be delivered by Midlands Engine partners.

Thus, there is some resonance between the Midlands Engine Strategy written by central government and The Midlands Engine Vision for Growth written by the Midlands Engine; since these also, to a large extent, tessellate with the National Industrial Strategy, they reflect national priorities¹⁹.

A Meso-Scale of Devolved Governance?

It is easy to be led into characterising the Midlands Engine as an emerging meso-scale of devolved governance, mediating between the national and the sub-national patchwork of local and combined authorities and the LEPs. Lee²⁰ suggests that similarly, the Northern Powerhouse represents the next phase of devolution in a centralised country. However, he also recognises that it needs to be analysed in different terms. For Lee, the Northern powerhouse is a brand and a strategy. The Midlands Engine similarly can be seen as a brand; it is a marketing tool to rally the participants in agreeing and delivering the strategy. Thus, the Midlands Engine can also be seen as a strategy. But, it can also be defined as an initiative, devised by government to develop what might be seen as an agglomeration economy at super-regional scale²¹. The Northern Powerhouse, however, is not a constitutional institution, and likewise the Midlands Engine has no statutory basis. It cannot be said to represent a meso-scale of devolved governance; rather, it can be defined as a partnership and has the status as such.

Indeed, the stated aim of the Midlands Engine is to bring together stakeholders in the territory to work together “to build on the strengths and to grow the economy of the Midlands Engine, and the UK”²². It is a voluntary partnership. Partners meet²³, and with Sir John Peace

19. It should be noted that the Green Paper was followed by the White Paper *Industrial Strategy: Building a Britain fit for the future* London: BEIS.

20. Lee N (2017) Powerhouse of cards? Understanding the “Northern Powerhouse”. *Regional Studies*. 51:3, pp 478-489.

21. It encompasses the territory covered by at least two former regional development agencies: Advantage West Midlands, and the East Midlands Development Agency. These were based on territory defined as UK ‘standard regions’.

22. BEIS (ND) *The Midlands Engine for Growth Prospectus*.

23. Records of meetings do not appear to be publically available.

as Chair, assisted by a small secretariat²⁴, these partners include the West Midlands Combined Authority, the local authorities, the LEPs, the universities and colleges, as well as businesses in the territory²⁵. Subgroups of partners have also been set up, aligned to the priorities of the Midlands Strategy²⁶. In this sense, given there is a strategy, the Midlands Engine is confirmed as a brand – as Lee²⁷ puts it, “a label which can be applied to often pre-existing policies to give them coherence”. In addition, it is a means of linking together in partnership those engaged in policymaking and implementation, and to impart an identity to that activity.

This raises the question of how the Midlands Engine Strategy relates to the strategies of the West Midlands Combined Authority and the local authorities and LEPs, given that strategies have already been written and ratified. It remains to be seen whether, with the strong assertion of power by central government, strategies of the organisations at sub-national scale will be re-written to reflect newly defined nationally oriented priorities. The Midlands Engine is not an executive agency; implementation is through, and by, the West Midlands Combined Authority, local authorities and attendant LEPs and other partners. Since these authorities are part of the partnership embodied in the Midlands Engine it would be expected, in principle, that the strategies of the sub-national authorities would be aligned to the priorities of national and meso-scale strategies. It is not yet clear whether the relationship between the strategies at the different scales will reflect a top-down or bottom-up approach. It is likely to be some combination of both ensuring the coherence of the strategies, but also allowing for policy-specificity to be identified at the different territorial scales.

Does the Midlands Engine Reflect a Place-Based Approach?

The critical elements of a place-based approach entail:

...the identification and mobilisation of endogenous potential ...and ...aims to develop locally-owned strategies that can tap into unused economic potential in all regions ... [to secure]... sustainable development and... wellbeing. [it... requires] strong and adaptable local institutions... [and] the involvement of a wide range of stakeholders and mechanisms for identifying assets in the local economy that can be the basis for local growth strategies²⁸.

24. As of November 2017, Isobel Brown is interim Programme Director. Simon Hall is Director, Export and Investment. See Insider Media <https://goo.gl/YrVdbt>

25. Midlands Engine (2017) *Joined up thinking* Nottingham: Midlands Engine

26. Midlands Engine (2017) *The Midlands Engine Vision for Growth: Our Response to the Government's Midlands Engine Strategy* Nottingham: Midlands Engine.

27. Lee N (2017) Powerhouse of cards? Understanding the “Northern Powerhouse”. *Regional Studies*. 51:3, pp 478-489.

28. Tomaney J (2010) *Place-Based Approaches to Regional Development: Global Trends and Australian Implications* Sydney: Australian Business Foundation Limited, p.6.

The Midlands Engine Strategy reflects a place-based approach, insofar as it has involved the **identification** of potential. It focuses on actions designed to address the issues relating to the specificities of the problems of the meso-region, albeit these appear to have been identified by central government. The evolution of both the national and the Midlands Engine Vision for Growth strategies appear to have involved a large number of stakeholders. As partners in the Midlands Engine, they appear tacitly to have agreed to implement the national and meso-level expression of the national strategy. The Midlands Engine, it can be argued, provides a focal point for devising a strategy or programme of action directed towards achieving policy coherence at the different spatial scales in order to secure sustainable development.

The strategies promise action on cross-cutting policy issues, but also on sector strategies. Sector deals, operationally similar to city deals, are supposed to enable tailored support to those industrial sectors that offer the opportunity to boost the UK economy in achieving productivity improvements. The deals promise further funding streams for development. Such an approach could be seen as negating a place-based approach; sectoral policies, some of which are targeted at individual companies, could be identified as being 'place-blind'²⁹. However, sector strategies are directed at groups of companies in sectors of industry that are generally spatially concentrated, and which form part of the industrial fabric and assets of a locality. Those identified in the Midlands Strategy are automotive, life sciences, cyber security, and agri-food; they are an integral part of the Midlands Engine economy. Although supply chains in these industries may extend beyond the Midlands Engine territory, it can be argued that the activity helps to anchor the companies in the sector in the territory; there is a symbiotic relationship between firms up and down the supply chain³⁰ which reflects and helps build sectoral and territorial resilience in the relational geographies and territorial geographies of production in such a territory as the Midlands Engine locality³¹. Arguably in support of this, the government has also launched a £1.7 billion Transforming Cities Fund to drive productivity through improved connectivity and reduced congestion, with the West Midlands Combined Authority to benefit from £250 million of this fund.

29. Bentley G and Pugalis L (2014). Shifting Paradigms: People-Centred Models, Active Regional Development, Space-Blind Policies and Place-Based Approaches. *Local Economy*, 29: 4-5, pp. 283-294; and Pugalis L and Gray N (2016) Regional Development Paradigms: An Exposition of Place based Modalities *Australasian Journal of Regional Studies*, 22:1, pp. 181.

30. The Government has announced a Supply Chain Competitiveness Programme (see DCLG (2017b) *Open letter to people and businesses of the Midlands from The Rt Hon Sajid Javid MP* London: Department of Communities and Local Government).

31. Bentley G, Bailey D and Braithwaite D (2017a) Resilience, adaptation and survival in industry sectors: Remaking and remodelling of the automotive sector, in Williams N and Vorley T (eds) *Creating Resilient Economies Entrepreneurship, Growth and Development in Uncertain Times* Cheltenham: Edward Elgar Publishing.

Conclusion

This chapter explores the answers to a number of questions. It concludes that it can be argued that the strategy for the Midlands Engine tessellates with the national Industrial Strategy and it provides the scope for the strategies at sub-regional level to reflect new national priorities. The Midlands Engine Strategy, written by central government and modified by the Midlands Engine in the Vision for Growth document, has undoubtedly been devised in collaboration between all partners. Further research is necessary to corroborate the extent of interaction between the different scales of sub-national governance and the national level.

There are indications that the Midlands Engine Strategy reflects in part a place-based approach to development; account has been taken of the problems facing the territory, although we question how well that has been carried out³². In particular, we question how well the connections along the supply chain of particular sectors has been mapped in an analysis of the role of the economy on the global stage and its integrity as an agglomeration economy. However, the paper ventures to suggest that the proposal for sector deals, which focus on the development of industrial sectors, should be and are an integral part of the place-based strategy for the Midlands Engine.

On the question of whether there is enough devolved power from Westminster for the UK to achieve its ambitions for place-based industrial strategy, it should be noted that it is with the combined authorities that devolution deals are being and made not the Midlands Engine. Powers and resources are devolved to the lower scale of governance. Despite this, government also controls the sub-national scale of governance structures by subtle means, through legislation, the level of funding and through scrutiny and regulation³³. The Midlands Engine is not a statutorily defined body; it is a partnership of agencies in the territory that will implement the Strategy. Thus, the Midlands Engine does not represent devolved governance. Elements of decentralisation exist, since the powers and resources are afforded to the sub-national authorities, channelled by way of the presence of the Midlands Engine and the Midlands Engine Strategy. The findings of this chapter hence suggest that the meso-scale of governance does not represent a re-territorialisation of policymaking but is the regionalisation of national policy, and represents a delegation of the administration of national policy to the meso-scale for transmission to the sub-national scale.

If the Midlands Engine (and similarly Northern Powerhouse) is to be

32. Paul Forrest, Director of the West Midlands Economic Forum, is highly critical of the Midlands Engine Strategy. He is reported as saying that "it exposes the voids in Whitehall's knowledge of the Midlands". He has also said that "we need to be more articulate in saying what the region needs." See Andrews M (2017) The Midlands Engine – is it grinding to a halt? *Shropshire Star* 22 August. <https://goo.gl/FTWLUE>

33. Bentley G, Pugalis L and Shutt J (2017b) Leadership and systems of governance: the constraints on the scope for leadership of place-based development in sub-national territories. *Regional Studies* 51:2 pp 194-209.

regarded as more than a brand, an initiative, a partnership and a strategy, with authority for policymaking at the meso-scale, it really requires the formation of a 'missing middle' regional scale authority with full powers and resources similar to the disbanded regional development agencies³⁴. There are indications that the Midlands Engine may acquire some status and become a stronger institution within the collaborative governance structure – which involves all partners and which includes businesses – required of a place-based approach. For example, the government is to provide £4 million to support the operation of the Midlands Engine Partnership. It proposes setting up an Intelligence Unit. Staff are clearly needed to write reports; staff are needed to manage programmes and to monitor progress in the implementation of the strategy. Nonetheless, it can be argued that the Midlands Engine represents an attempt by central government to co-ordinate industrial policy across different scale geographies of production and consumption to achieve a place-based industrial strategy. However, given that the Midlands Engine does not hold an executive function, but represents a marketing tool to rally and sell the opportunity to implement a nationally determined strategy to sub-national policy actors, the Midlands Engine could dematerialise through a lack of statutory powers and resources to undertake action.

34. Hildreth P and Bailey D (2014) Place-based economic development strategy in England: Filling the missing space. *Local Economy* 29: 4-5, pp 363 - 377.

Appendix I: Timeline of the Midlands Engine

Date	Publication/Event	Attribution
December 2015	The Midlands Engine for Growth: Prospectus	Department for Business, Energy and Industrial Strategy; Launch of the Midlands Engine prospectus at a conference at the University of Birmingham
July 2016	Picking Up The Pace Report	Midlands Connect. Sets out a case for accelerating the planning and design stages of key transport projects
September 2016	The Midlands Engine; Science and Innovation Audit Summary	Sponsored by the Department for Business, Energy and Industrial Strategy
September 2016	The Midlands Engine Science and Innovation Audit. Volume 2: Supporting Annexes	Sponsored by the Department for Business, Energy and Industrial Strategy
November 2016	A Science and Innovation Audit: Report for the Midlands Engine, Volume 1: Main Report	Sponsored by the Department for Business, Energy and Industrial Strategy
January 2017	Building our Industrial Strategy – Green Paper	Department for Business, Energy and Industrial Strategy
February 2017	Midlands Engine – Investment portfolio	Department for International Trade
Spring 2017	Joined up Thinking	Midlands Engine (ND) Document sets out the partners
March 2017	Midlands Connect Strategy: Powering the Midlands Engine	Midlands Connect
March 2017	Midlands Pavilion at MIPIM property exhibition in Cannes.	Midlands Engine – included a presentation to international investors
March 2017	Qatar-UK Business and Investment Forum held in Birmingham	Department for International Trade
March 2017	Midlands Engine Strategy	Department for Communities and Local Government; launched by the Chancellor of the Exchequer in Dudley
April 2017	Response of the Midlands Engine to HM Government's Green Paper Building our Industrial Strategy	Midlands Engine

Appendix I: Timeline of the Midlands Engine (continued)

Date	Publication/Event	Attribution
May 2017	Capacity Capability Connectivity. The Midlands: Opportunities in Rail	Department for International Trade
July 2017	Advertisement for posts of Chief Executive and Programme Director	Midlands Engine: News item
August 2017	Spotlight: The Midlands Engine Investment Fund	British Business Bank
August 2017	British Business Bank launches first £120 million tranche of Midlands Engine Investment Fund ³⁵	Midlands Engine: News item
September 2017	The Midlands Engine Vision for Growth: Our response to the Government's Midlands Engine Strategy	Midlands Engine
September 2017	'Future of the Midlands Engine', Conference, held in Birmingham	Westminster Policy Forum
November 2017	Visit to China International Industry Fair in Shanghai - Presentation	Midlands Engine – presentation by Sir John Peace and Rt Hon Sajid Javid
November 2017	Welcome to the UK's Midlands Engine: Driving growth and Innovation	Midlands Engine – Brochure to pitch at China Market
November 2017	Open letter to people and businesses of the Midlands from The Rt Hon Sajid Javid, MP and Secretary of State for Communities and Local Government	Department for Communities and Local Government; to publicise the Industrial Strategy
November 2017	Midlands Engine Summit for Growth	Insider Media Limited
November 2017	Industrial Strategy: Building a Britain fit for the future (HMG, 2017) published	HM Government

Appendix II: Ten Pillars of the Industrial Strategy³⁵

- 1. Investing in science, research and innovation:** we must become a more innovative economy and do more to commercialise our world-leading science base to drive growth across the UK.
- 2. Developing skills:** we must help people and businesses to thrive by: ensuring everyone has the basic skills needed in a modern economy; building a new system of technical education to benefit the half of young people who do not go to university; boosting STEM (science, technology, engineering and maths) skills, digital skills and numeracy; and by raising skill levels in lagging areas.
- 3. Upgrading infrastructure:** we must upgrade our standards of performance on digital, energy, transport, water and flood defence infrastructure, and better align central government infrastructure investment with local growth priorities.
- 4. Supporting businesses to start and grow:** we must ensure that businesses across the UK can access the finance and management skills they need to grow; and we must create the right conditions for companies to invest for the long term.
- 5. Improving procurement:** we must use strategic government procurement to drive innovation and enable the development of UK supply chains.
- 6. Encouraging trade and inward investment:** government policy can help boost productivity and growth across our economy, including by increasing competition and helping to bring new ways of doing things to the UK.
- 7. Delivering affordable energy and clean growth:** we need to keep costs down for businesses, and secure the economic benefits of the transition to a low-carbon economy.
- 8. Cultivating world-leading sectors:** we must build on our areas of competitive advantage, and help new sectors to flourish, in many cases challenging existing institutions and incumbents.
- 9. Driving growth across the whole country:** we will create a framework to build on the particular strengths of different places and address factors that hold places back – whether it is investing in key infrastructure projects to encourage growth, increasing skill levels, or backing local innovation strengths.
- 10. Creating the right institutions to bring together sectors and places:** we will consider the best structures to support people, industries and places. In some places and sectors there may be missing institutions which we could create, or existing ones we could strengthen, be they local civic or educational institutions, trade associations or financial networks.

35. Source: BEIS (2017) *Building Our Industrial Strategy: Green Paper* London: BEIS: p 11

Combined Authorities in England: Beacons of the Place-Based Agenda

Dr Felicia Fai, Associate Professor of International Business and Innovation at the University of Bath

Introduction

Combined authorities are a new layer within the English place-based industrial policy¹ established predominantly during 2015-17. By their very nature they are place-based, in that they have devolved responsibilities and powers from Whitehall. Combined authorities need to ensure that the activities they undertake reflect how they can best drive economic growth in their region. If they do not understand the economics of their region, how the business community works and how it interacts with others, and what makes the area function, they cannot fulfil their mission. Making decisions about an area that reflects the intricacies of the local environment is the essence of combined authorities' responsibility. They are the beacons of place-based industrial strategy.

However, Brexit has two potential impacts on the future of combined authorities. On the one hand, the threat of Brexit heightens the imperative for the government to drive industrial growth across the country and allocate more devolved powers to the regions, as the need to be more self-reliant and more attractive as a trading partner, or investment location, will be all the greater should our departure be completed. On the other hand, given Whitehall's understandable attention to Brexit, the devolution agenda may stall. Given that several applications to form combined authorities were rejected in the recent past, local authorities may not feel it is the right time to pursue the lengthy and complex process of developing a combined authority, despite the benefits that might arise from greater scale and synthesis of activities in working together – particularly in an era of extended austerity. Beyond the withdrawal process stage, once Brussels returns powers to the UK, some fear that there will be relative recentralisation

1. Scotland and Wales have their own regional structures.

of power to Whitehall altering the balance away from the regions once more.

This chapter seeks to provide a short account of combined authorities for contextual background, but then focuses on establishing how well their stated priorities fit with the government's industrial strategy. Following this, it considers the debate on whether the creation of combined authorities will gain further significance within the government's place-based agenda, or whether they will run out of momentum.

Background to the Formation of Combined Authorities and Devolved Power in England

“Alongside the proposals for additional devolution to the administrations of Scotland, Wales and Northern Ireland, there was an urgent need to discuss devolution within England”

After the Scottish Independence Referendum, then Prime Minister David Cameron publically acknowledged that alongside the proposals for additional devolution to the administrations of Scotland, Wales and Northern Ireland, there was an urgent need to discuss devolution within England. Devolution to combined authorities became the main response in England, with the first deal agreed in 2014 with the Greater Manchester Combined Authority (established in 2011), building up to the nine deals (outside London) that currently exist (see Table 3). There were mayoralities proposed for Greater Lincolnshire, the North-East, and Norfolk and Suffolk – but in 2016 their attempts to establish devolution deals collapsed^{2,3}.

At least two local authorities must agree to set up a combined authority. The relevant legislation is the Local Democracy, Economic Development and Construction Act 2009 and the Cities and Local Government Devolution Act 2016. Combined authorities could originally be established with or without a directly-elected mayor⁴ although, since their conceptualisation, the government has moved strongly towards the view that combined authorities should have mayors, especially in metropolitan regions; it has gone so far as to say that proposals to form combined authorities without a mayor would not be considered⁵. Eight of the nine devolution deals are with combined authorities⁶, six of which are led by directly elected mayors.

2. Sandford, M (2016) *Devolution to local government in England*, Briefing Paper No. 07029, 23 November, House of Commons Library.

3. The New Economy (2016) identified four themes around which the most successful devolution negotiations appear to have in common: Evidence, Partnership, Strategy and Track-record. *Learning from English Devolution Deals, A report by New Economy for the Local Government Association*, LGA <https://goo.gl/EzYrM9> accessed 12/02/18.

4. Sandford (2017) *Combined Authorities*, Briefing Paper No.06649, 4 July, House of Commons Library.

5. There seems to be some scope for non-metropolitan areas to make the case against elected mayors if supported by strong evidence.

6. Cornwall's powers have been devolved to Cornwall Council, rather than a combined authority.

Table 3: English Devolution Deals⁷

Combined Authority	Devolution Deal (and Subsequent Extensions) Agreed	Mayoral Status
Greater Manchester	03-Nov-14	Mayor
	12-Dec-14	
	27-Feb-15	
	08-Jul-15	
	25-Nov-15	
	16-Mar-16	
West Yorkshire	18-Mar-15	Without Mayor
Cornwall	27-Jul-15	Without Mayor
Sheffield City Region	05-Oct-15	Election due May 2018
Tees Valley	23-Oct-15	Mayor
West Midlands	17-Nov-15	Mayor
	23-Nov-17	
Liverpool City Region	17-Nov-15	Mayor
	16-Mar-16	
West of England	16-Mar-16	Mayor
Cambridgeshire / Peterborough	20-Jun-16	Mayor

The government's strong preference for directly elected mayors is due to the visibility of the mayor as a single point of contact for the combined authority and the unambiguous accountability it brings regarding decision-making responsibility. On the other side, a highly visible and vocal mayor can give areas representation at a national level on the issues that matter most to their places⁸. This can help bridge the dislocation between the seat of decision-making power and its (non-) impact at a local level, a divide that much of the electorate expressed dissatisfaction with in the EU referendum⁹. Whilst devolution is an ongoing process, dynamics in the most established devolved regions like Manchester suggest that the extent of devolved powers will be ultimately greater for those authorities with mayors than those without. Once established, the combined authority can assume the statutory functions transferred to it by an order made by the Secretary of State, plus any functions that the constituent authorities agree to share.

7. Sandford, M (2016) *Devolution to local government in England*, Briefing Paper No. 07029, 23 November, House of Commons Library.

8. This is a potential benefit of a mayor. Andy Burnham and Andy Street are, arguably, the most visible mayors who get heard at a national level. In some combined authorities, city mayors have more visibility in the local media than the combined authority mayor and the local electorate may not even be aware that a combined authority mayor exists.

9. Hudson, V. (2016) "Where now for Combined Authorities? The impact of the vote to leave the EU", <https://goo.gl/CJfjBH> accessed 17/02/18.

Figure 5: Combined Authorities, 2017 – Mayoral Executive Powers¹⁰

Combined Authority	Powers							Other
	Directly Elected Mayor	Transport	Strategic Planning under Control of Mayor	Housing	Regeneration & Development Corporations	Skills, Employment and Business Support	Culture	
Greater Manchester								Health
Tees Valley								Energy
West Midlands								
Liverpool City Region								Energy, Assets
West of England								Energy
Cambridgeshire / Peterborough								University

“The extent of devolved powers will be ultimately greater for those authorities with mayors than those without”

There are many outstanding issues with respect to combined authorities. The National Audit Office (NAO) reports that “the government has decided not to set out a clear statement of what it is trying to achieve through devolution deals, or a clear framework for how the deals will link to other ongoing localism initiatives”¹¹. The government has also not stated how quickly it intends to agree further deals. As a result, the range of powers devolved to each of the combined authorities is slightly different (Figure 5). There are questions about the very secretive negotiation process between combined authorities and Whitehall¹². Mayoral statements that over-claim their remit at times further obscure clarity about which issues they hold discretion over¹³. The range of powers a devolved region possesses has implications for the governance structure of the combined authority and its relationships with local authorities, local enterprise partnerships and other bodies such as the police, fire service and NHS primary care trusts as well as others. These will constrain the ability of combined authorities to implement change. The government apparently does not intend to use

10. Source: Mophet, J. (2017) “Combined authorities – the next big thing?” *Town & Country Planning*, March 2017, Table 1, p. 101.

11. <https://goo.gl/VCstAc>, point 12. Accessed 17/02/18.

12. Sandford, M (2016) “The negotiations have been conducted in secret, leading to much speculation about the intentions underlying central government’s approach....” From *Devolution to local government in England*, Briefing Paper No. 07029, 23 November, House of Commons Library section 4.2, p.19.

13. “...in Greater Manchester, the mayor has no formal responsibility for the integrated health and social care bodies, but Andy Burnham has already pushed forward some initiatives around mental health” *ibid*, p. 19. Similarly, the NAO report that the six mayors elected in May 2017 “...campaigning on manifestos which frequently made policy commitments beyond the current remits of these organisations”. <https://goo.gl/qM342y> accessed 18/02/18.

macro-level indicators to assess devolution deals, yet the NAO state that good management and accountability both depend on appropriate and proportionate measures to understand their impact. Given the novel and experimental nature of devolution to combined authorities, and the fact that many of the assumptions about devolution deals are untested, the NAO stress it is important to establish an evidence base to enable tests of value – but the criteria for doing this have not been established.

Despite these shortcomings, the recognition that many issues like transport, infrastructure and housing do not stop neatly at local authority or local enterprise partnership boundaries, and require a scale of investment that would be better served by coalition and coordination across the region, means that combined authorities are seen as a necessary instrument for the execution of place-based policy within England. Given the emphasis attached to those regions with mayors, the following analysis of devolved regions' fit with the UK industrial strategy is focussed on the six mayoral combined authorities (outside London).

Responses to UK Industrial Strategy

All the devolved regions and combined authorities welcomed the UK Industrial Strategy. Details of their current status or (more commonly) ambitions as laid out in their strategic economic plans¹⁴, whilst having a different underlying architecture of three or four priorities, map on well to the White Paper's five foundations of ideas, people, infrastructure, business environment and places (see Appendix I)¹⁵. It is evident that combined authorities will not only work to serve the national industrial strategy set out by the government, but that they will leverage the national industrial strategy to support their regional plans previously developed by their respective local economic partnerships, combining top-down and bottom-up influences and activities. The language in the combined authority documentation indicates a currently positive and largely supportive relationship between themselves and central government (perhaps in a honeymoon period). However, some combined authorities give the impression of still working in a rather siloed manner on each of the five foundations, or perhaps are less mature in the development of the coherence between their various initiatives; others signal greater coherence in their connectedness.

As is the nature of the place-based approach, all combined authorities identified different ways their areas could contribute to, and/or benefit from, the ambitions of the UK Industrial Strategy with respect to sectorally focussed growth (see Table 4). For example, Greater

14. Some such as the WECA's are still being formulated following a period of consultation, although for the newest combined authorities, the strategic economic plans developed by their local enterprise partnerships seem to form the basis of their own strategy documents – so these have also been consulted.

15. The content in Tables 4 and 5 and Appendix I are indicative, rather than full details, of the activities and key ambitions of the combined authorities.

Manchester Combined Authority (GMCA) perceives sector deals as entailing risk because historically, in sector-led initiatives, it has missed out given its “diverse economic structure and lack of prime exporters and tier one supply chain firms that such approaches tend to gravitate around”¹⁶. The West Midlands Combined Authority (WMCA) is well poised to take advantage of the current automotive sector deal and will benefit from the potential future sector deal in industrial digitalisation. The West of England Combined Authority (WECA) looks set to benefit from future sector deals in creative industries as well as the potential deal for nuclear, given Hinkley Point C and the tremendous investments the area is making in developing supply chains and future skills for this sector. Tees Valley Combined Authority (TVCA) may benefit less directly from the sector deals currently available – but given the government’s commitment to clean growth, identified as one of the ‘Grand Challenges’ and their growing expertise and capability in carbon capture and the circular economy, the Combined Authority is bound to find opportunities for government support and funding in the future (see Table 5).

Table 4 identifies which current sector deals each combined authority claims to have strength, or potential strength, in. However, at times, the claims of strength seem to be made relative to the sector only within its own region rather than relative to the UK as a whole. For example, combined authorities may claim “we also have strength in X” instead of “we also have strength in X, but currently we rank 5th in the UK as a region in this sector/activity”. The same applies to stated ambitions. Cambridge and Peterborough’s combined authority and local enterprise partnership want to be the UK’s exemplar area for digital connectivity, yet write “we currently have a relatively poor digital offer, especially compared internationally”¹⁷. It is therefore hard to get a sense of how realistic ambitions are, and whether their potential will actually materialise.

Limiting the matching process from combined authority documentation to only the priority sectors in the Industrial Strategy will lead to under-reporting of the range of industrial activities within the combined authorities. Table 5 indicates areas of fit with future sector deals specified in the Industrial Strategy as well as sectors and activities the combined authorities identify as areas of strength or potential strength that would contribute to local growth, but which are not earmarked for future sector deals by the government. Additionally, in much of their strategy documentation outlining their unique strengths and areas for potential growth and development, combined authorities identified as many (if not more) capabilities as sectors. An interview with a WECA representative suggested that whilst combined authorities were able to identify sectoral strengths that aligned with the sector deals prioritised by government, in fact they were not overly focussed on developing

16. Leese, R. and Bernstein, H. (2017) *Industrial Strategy: developing a Greater Manchester response*. GMCA Report. 24th February 2017, pp.4-5.

17. <https://goo.gl/QoNpNd>, page 7. Accessed 19/02/18.

specific sectors within their regions. Rather than striving to become identified or maintain their identity as a regional cluster based on a traditional sectoral classification (eg. as an aerospace cluster), they were concentrating on developing underlying capabilities that had the ability to affect several sectors in their region (and nationally). For example, the National Composite Centre Catapult in Bristol develops numerous capabilities that can be applied across firms in aerospace, automotive and high-value manufacturing – each of which would never be able to develop those technologies alone. A similar focus on competencies and capabilities is illustrated by Liverpool City Region’s presentation of its explicit competency definitions in its *Making It* report¹⁸. Moreover, WECA demonstrated a highly sophisticated mindset. WECA considered that it was the unique **combination of capabilities** that the region possessed and developed that would enable the region to be sufficiently ‘sticky’ to maintain its current high levels of regional investment and underpin long-term economic growth. This approach – focusing less on sectors, but more on the capabilities that underlie them – needs to be fed up to Whitehall more explicitly, as it may help overcome the tendency for sector deals to echo the vertical industrial policies and memories of their failure to pick ‘winners’ in the past.

An Uncertain Future?

For most of the combined authorities, it is too early to comment on their effectiveness in implementing a place-based industrial strategy although the NAO have cautioned “the evidence that investment, decision-making and oversight at this sub national level is linked to improved local economic outcomes is mixed and inconclusive”^{19,20}. Indeed, combined authorities have not yet written their local industrial strategies, but according to the Industrial Strategy White Paper combined authorities will be among the first to be considered for approval by the government in March 2019. This statement suggests broadly ongoing governmental support for the combined authorities and their role in developing locally-led solutions to generate regional prosperity and raise regional productivity – at least in principle. Nevertheless, there is also debate as to the future of combined authorities in the context of the impact of Brexit on the broader devolution agenda.

It is clear to see that Brexit negotiations are the primary focus for the current Conservative government. Despite having pressed hard to hold mayoral elections in May 2017, it seems momentum for devolution at the central government level has diminished since. Without a strong flag bearer in the Cabinet, like George Osborne in the previous government, the visibility of devolution within England has ebbed

18. Competency Definitions, *Making It. Advanced Manufacturing in LCR*, p 36. <https://goo.gl/7BGBc5> accessed 15/02/18.

19. <https://goo.gl/j5JCVN> accessed 18/02/18.

20. The Centre for Cities have produced a series of blogposts that summarise the achievements of each of the newly elected mayors six months in: <https://goo.gl/CBsuYL> accessed 17/02/18.

somewhat. Given this, and given the austerity measures facing local authorities, it would seem logical for local authorities to focus more on delivering existing services and commitments, rather than diverting limited resources to invest in relationship-building and negotiations to form the unified front required to create a combined authority and apply for devolved powers. The role of relationship-building is crucial given its role in the failure of some of the bids for devolution in the previous round.

A significant issue on the horizon relates to funding. Exiting the EU would impact upon several sources of funding which currently enable regions to deliver programmes related to place-building, primarily the European Structural Funds and Regional Growth Funds²¹. Additionally, the six mayoral authorities have strong research bases due to the presence of research-intensive universities in their locales who receive grant funding from the Horizon 2020 programme but who are unlikely to be able to apply for EU grants beyond 2020 unless negotiated for as part of the reformulation of the relationship between the UK and the EU.

Equally importantly, although perhaps less visible in the popular media, the UK's departure from the EU would significantly affect the ability of combined authorities to deliver their ambitions indicated in Appendix I. In terms of the Industrial Strategy foundation of 'Ideas', current EU employees may repatriate, as many now feel unwelcome; universities and businesses may face difficulties recruiting staff who have the technical or scientific knowledge that contributes to the innovative base of the UK, and EU students who graduate and stay in the UK will be diminished as a resource pool. The 'Infrastructure' foundation pillar requires labour, much of which currently comes from the EU. Whilst combined authorities have received powers to deliver on housing and infrastructural improvements in their areas, it is not clear (even with the commitment to the 'People' foundation pillar) that the supply of British workers will be able to substitute for the potentially acute loss of labour in the sectors related to the delivery of infrastructure. Additionally, changes in the trading relationship over goods and services are likely to impact the cost of imported building materials and equipment. Furthermore, uncertainty about the future of Britain's trading relationship with the EU will also affect the ability of local growth hubs to provide accurate support and advice to businesses within their authority area affecting the 'Business Environment' foundation pillar²². Combined, these will influence negatively upon the fifth industrial strategy foundation pillar – 'Places'.

21. Bachtler, J. (2017) What future for UK regional development after Brexit? <https://goo.gl/aZQMPL> accessed 18/02/18.

22. Hudson, V. (2016) "Where now for Combined Authorities? The impact of the vote to leave the EU", <https://goo.gl/hUYUtz> accessed 17/02/18.

Table 4: Mapping of Six Mayoral Authorities' Sectoral Strengths on to the Sector Deals Announced in the UK Industrial Strategy

	Life Sciences	Construction	Artificial Intelligence	Automotive
Greater Manchester	Creating a dedicated £40m life sciences investment fund. Has identified industrial biotechnology as a capability of relevance for the concentration of related industries in the North of England.			
Tees Valley	Home to world-leading biologics manufacturers and rich sub-clusters of companies in biological reagents, assistive technology, health informatics and pharmaceuticals. Expertise of both Teesside University and Durham University with a complementary focus on health and health-related research.			
West Midlands				The government wants the West Midlands to be a national and international hub for developing new automotive technologies (autonomous, electric vehicles). Government will also be investing £5m from the 5G Testbeds and Trials programme in 2018, to test 5G applications and deployment on roads, including helping to test how we can maximise future productivity benefits from self-driving cars.

Life Sciences

Liverpool City Region (LCR)

One of Europe's largest health and life science clusters, 20% of LCR workforce contributing £4.1bn to GVA. LCR has a strong research-intensive HE base that brings together leading life sciences, biomedical and medical research with sophisticated facilities for genomics and personalised medicine. LCR is one of the leading bio-manufacturing clusters in Europe. LCR has a rapidly expanding biotechnology community, many healthcare technology companies and a strong analytical and clinical supply presence.

Construction

LCR and the wider North West is already recognised as one of the world-leading centres for automotive design and build. Focusing on 'light-weighting', smart, hybrid, multiple materials and use of composites for automotives, investment in L-T development of systems modelling, integrated design and simulation.

Artificial Intelligence

West of England

Hub for architectural design and services. Research into sustainable construction at the University of Bath.

Home to Bristol Robotics Laboratory, the UK's largest centre for multidisciplinary robotics and AI research and development.

Institute in Advanced Automotive Propulsion Systems, as part of the University of Bath, being established in Bristol Bath Science Park.

Cambridgeshire/Peterborough

Cambridge is internationally renowned for its world-leading university and its global strengths in technology and life sciences. One Nucleus for life sciences and healthcare companies. A bio-tech and agri-tech cluster also. A cluster of nearly 300 companies in these technologies.

The evidence gathered for this table derives predominantly from combined authorities' responses to the Industrial Green Paper, economic plans, and any subsequent minutes of meetings that could be sourced online that made reference to the White Paper. Where there was an absence of the combined authority economic plan, the strategic economic plan for the corresponding local enterprise partnership was used. The author has amalgamated responses to the ten pillars proposed on the Green Paper, and mapped these to the five foundations and sector deals identified in the White Paper for clarity. The sources are as follows: Greater Manchester (<https://goo.gl/hcUYYP6>); Tees Valley (<https://goo.gl/rhHVZY> and <https://goo.gl/m2bmvd>); West Midlands (<https://goo.gl/B7on6f>); Liverpool City Region (<https://goo.gl/jSAU6h> and <https://goo.gl/P5SuU8>); West of England (<https://goo.gl/iDX2Uc>); and Cambridgeshire/Peterborough (<https://goo.gl/w7Fscv>; <https://goo.gl/8krD7x>; and <https://goo.gl/ZeZJGS>).

Table 5: Mapping of Six Mayoral Authorities' Sectoral Strengths on to the Future Sector Deals announced in the UK Industrial Strategy, plus Other Identified Sectors of Potential

Creative Industries	Industrial Digitalisation/Made Smarter	Nuclear	Sector Strengths of Authority not Yet Earmarked for a Sector Deal
<p>Greater Manchester (GMCA)</p>	<p>Ambition to be to be a recognised global digital city region and top five in Europe by 2020. In NESTA's European Digital City Index 2016 Manchester was 16th (5th UK city). Is home to the largest digital and creative cluster outside London with 7,500 – 8,000 digital and creative businesses. Strengths in ecommerce, cybersecurity, media/creative and data analytics. More than 82,300 employees in the sector, generating >£4.1bn GVA. 15,000 creative, digital and IT students at GM's four HEIs. GMCA has £2m Digital Skills Programme.</p>		<p>Business, finance and professional services (legal and accounting, insurance, and business services); manufacturing (advanced materials, textiles, chemicals, and food and drink, as well as Greater Manchester firms' role in national supply chains); health innovation (life sciences, medical technology/devices, health services, and devolution). Materials (in advanced materials, the opportunities to develop 'Graphene City', opening of the Graphene Engineering Innovation Centre to turn discoveries into applications).</p>
<p>Tees Valley (TV)</p>	<p>TV accommodates a wide range of digital and creative enterprises, including specialist companies in media and games development, mobile application and web development, IT support for the advanced manufacturing sector, IT consultancy and business application development. Teesside University is one of the leading universities in animation and computer gaming.</p>		<p>Advanced manufacturing; process, chemicals and energy; logistics; health and biologics; culture and leisure; and business and professional services.</p>
<p>West Midlands (WMCA)</p>	<p>The Mayor and the WMCA have a compelling vision to become a global tech hub to rival Berlin, Austin and Tallinn by harnessing the power of digital in the public sector and creating the right environment for tech start-ups. Working with GDS and DCLG, the WMCA will draw up a Digital Capability Framework. WMCA already launched their Urban Challenge programme and government encourages the WMCA to put forward new challenges to the recently announced GovTech Catalyst.</p>		<p>Professional and business services. Energy and low carbon.</p>

Liverpool City Region

Has some of Europe's leading capability in the application of digitisation, big data analytics and high-performance computing. Digital and creative new business growth rates more than doubled between 2010 and 2013 (although base line not specified). Implementation through Liverpool Plug + Play initiative and Big Data North West.

Advanced manufacturing, financial and professional services, low-carbon energy (wind and tidal), maritime and logistics, and the visitor economy.

West of England

Globally renowned for its creative sector, including BBC Natural History Unit and Aardman Animations.

TechNation reported that the West of England's digital sector was the most productive in the UK.

Hinkley Point C Nuclear Reactor. Plus training and skills for it the growth of a local supply chain.

Aerospace. Low carbon and environmental goods and services. Finance and insurance support services. High-value innovation, design and manufacturing.

Cambridgeshire/Peterborough

Technology-based creative companies turn over more than £1billion per annum in the area. The key sub-sectors demonstrating significant national growth are publishing, software and computer gaming. Ten per cent of the UK's computer games developers are within five miles of Cambridge city centre.

Strong history of scientific work and innovation in digital technologies, but not necessarily their commercial deployment. Home to internationally significant ICT, software and telecoms cluster employing nearly 50,000 individuals. Including ARM, (global premier semiconductor IP supplier) and Autonomy, the second-largest pure software company in Europe.

Environmental goods and services, clean-tech, financial services, digital. Food and drink, agri-tech, manufacturing, engineering and processing, logistics, water and energy, and the visitor economy.

The evidence gathered for this table derives predominantly from combined authorities' responses to the Industrial Green Paper, economic plans, and any subsequent minutes of meetings that could be sourced online that made reference to the White Paper. Where there was an absence of the combined authority economic plan, the strategic economic plan for the corresponding local enterprise partnership was used. The author has amalgamated responses to the ten pillars proposed on the Green Paper, and mapped these to the five foundations and sector deals identified in the White Paper for clarity. The sources are as follows: Greater Manchester (<https://goo.gl/hcUYP6>); Tees Valley (<https://goo.gl/rhHVZV> and <https://goo.gl/m2bmvD>); West Midlands (<https://goo.gl/B7on6f>); Liverpool City Region (<https://goo.gl/jSAU6h> and <https://goo.gl/P5SuU8>); West of England (<https://goo.gl/iDX2UC>); and Cambridgeshire/Peterborough (<https://goo.gl/w7Fscv>; <https://goo.gl/8krD7x>; and <https://goo.gl/QueZJGS>).

Conclusion

The combined authorities are a key instrument by which the government seeks to devolve power within England. On the surface of it, the ambitions and objectives the combined authorities identified on their websites and strategic reports signal the goodness of fit between their own local priorities and those for the UK as a whole as expressed in the Industrial Strategy. There are, however, many problems about transparency and the performance measurement of combined authorities which have yet to be resolved – and the additional pressures of Brexit, within an age of prolonged austerity on public sector spending, are likely to severely hamper the delivery of the ambitious plans each combined authority has set out for itself. Whilst these issues are not unique to the combined authorities, and all regions across the UK will be affected, the combined authorities have become **the** primary vehicle by which more equal prosperity and productivity is sought across England. The combined authorities also have a louder voice than local authorities or local enterprise partnerships to raise concerns about the impact of Brexit on the growth and development of England. The combined authorities themselves recognise this and have been seeking a seat at the Brexit negotiation table, or at the very least, have been seeking reassurances about the replacement of EU funding through the government's proposed Structural Investment Fund. However, the response from government has been politely placatory rather than reassuring²³. One might question whether the combined authorities will continue to be the beacons for place-based economic strategic growth, or whether, in future, the government's support for them will be identified as merely rhetoric or a failed experiment.

23. <https://goo.gl/7Rreba> accessed 18/02/18.

Appendix I: Mapping of Six Mayoral Authorities' Ambitions and Objectives for Local Growth and Prosperity onto the Five Foundations of UK Industrial Strategy

I Greater Manchester²⁴

Foundation	Ambition
Ideas - commitment to innovation, entrepreneurship and R&D	Is investing in area's leading business sectors, building upon world-class science and innovation assets.
People - skills, earning power and job quality	GMS has an initiative to give parents support so that children are ready to learn when they start school. Is developing: a curriculum for life among schools and colleges to develop core work competencies, better careers advice, improving the quality and quantity of apprenticeships in key sectors. Striving to improving productivity and pay. Strengthening existing and creating new employment locations in GM, especially town centres.
Infrastructure - transport, broadband and housing	Is developing a fully integrated transport system with smart ticketing, delivering HS2, and Northern Powerhouse Rail. Also making investments in Manchester Airport and Ship canal. Has ambition to be top 5 European digital region with super-fast broadband and 5G. Aiming for 10,000+ homes p.a. until 2035
Business Environment - support structures, growth hubs, trade and investment	General statement on working to remove barriers to investment, support to set up and grow businesses.
Places - prosperity in the community	Want to improve energy efficiency, enhance quality of natural environment, and prevent homelessness. Investing cultural, sport and leisure provision. Are co-designing public services to increase inclusiveness and community cohesion. Improvements being made in health services, community care and support provision. Have ambition to become UK's 1st 'Age-friendly' city-region.

24. <https://goo.gl/hcUYP6>

II Tees Valley²⁵

Foundation	Ambition
Ideas - commitment to innovation, entrepreneurship and R&D	TV is at the forefront of developing new approaches to Carbon Capture and storage. A leading group of multi-national companies known as the Teesside Collective are specifically recognised within the strategy. The South Tees Development Corporation initiative was launched with ambitions to be a world-class industrial park on the River Tees, heavily focussed on manufacturing innovation and advanced technologies.
People - skills, earning power and job quality	'Inspiring Our Future' is launched December 2017 to detail plans to transform education, employment and skills in the area within which the Tees Valley Careers initiative would seek to bring together schools and colleges with local employers to provide the best opportunities for young people entering the world of work. Apprenticeship Support for Employers (ASE) offers excellent opportunities for employers in key sectors such as advanced manufacturing, chemical and process, and digital and creative, to grow and develop their workforce.
Infrastructure - transport, broadband and housing	Has received >£59 million to develop numerous bold transport plans. Key project is the Darlington 2025 scheme to enhance rail connections across the North on the East Coast Main Line. It will form a vital part of the future HS2 network leading to faster, more frequent and better quality services across the Tees Valley, County Durham and North Yorkshire, and improved freight connections from Teesport.
Business Environment - support structures, growth hubs, trade and investment	An extended commitment to the Growth Hubs is confirmed - Tees Valley Business Compass Service.
Places - prosperity in the community	The South Tees Development Corporation is a flagship initiative for local leadership of industrial regeneration. It received £123m to kick start the locally led development corporation and start to remediate land ready for investment.

25. <https://goo.gl/rhHVZV> and <https://goo.gl/m2bmvD>

III West Midlands²⁶

Foundation	Ambition
Ideas - commitment to innovation, entrepreneurship and R&D	Has significant potential for growth in the creative and digital sectors, building on the region's young population, excellent universities, entrepreneurial culture, connectivity and strong focus on digital technology. There is significant potential of professional and business services as a growth sector.
People - skills, earning power and job quality	Will be a pioneer of Skills Advisory Panels (SAP) - a new local partnership responsible for strategic planning for post-16 skills, work placements and apprenticeships. Will help develop bids for WM Institutes of Technology. Seek to establish a Social Work Academy - 'FutureSocial' to provide end-to-end support for career development. Will work with government to develop and adopt an Employment Support Framework Agreement for the better coordination of employment, skills and health services across the West Midlands.
Infrastructure - transport, broadband and housing	Has long-term West Midlands Transport Delivery Plan, with an emphasis on sustainability. Will receive £250m over 4 years from the Transforming Cities for local transport priorities Ambitions to develop Mobility as a Service (MaaS) the use of digital technologies to provide seamless public transport services as a viable and sustainable alternative to private car use. Investment in HS2. Aims to deliver 215,000 homes, aligned to transport and infrastructure priorities, by 2031. WM is a 'Housing First' pilot scheme to tackle homelessness.
Business Environment - support structures, growth hubs, trade and investment	Will explore with the government and partners, how more intensive supply chain management and specialist business support can accelerate productivity growth, informing emerging sector deals and national thinking on clusters.
Places - prosperity in the community	Will develop and implement a comprehensive strategy for improving air quality across the West Midlands in collaboration with the local authorities eg. Clean Growth Strategy. Will work with government to support and build the culture and sport sectors in the region. Are prioritising enhancing mental and physical health, wellbeing and resilience and making the maximum impact on productivity and the reduction of inequalities in the future.

26. <https://goo.gl/B7on6f>

IV Liverpool City Region²⁷

Foundation	Ambition
Ideas - commitment to innovation, entrepreneurship and R&D	Ambition to become an 'Enterprise Capital of Europe'. LCR has a strong network of knowledge assets including a national innovation campus at Sci-Tech Daresbury and the Liverpool Knowledge Quarter. These strengths have been important drivers of growth in the City Region, enabling application and exploitation of ideas, skills and innovation. Currently, 83,000 people are employed in knowledge intensive industries in the City Region.
People - skills, earning power and job quality	The 4 universities produce a significant pool of highly-qualified graduates annually. Higher-level skills have increased in recent years. (>7,000 Liverpool City Region residents were studying STEM subjects in HE across the UK; Skills Commission to be established by the Combined Authority. Have clear skills 'pathway partnerships' which will link businesses and their needs with skills provision from Key Stage 1 to board level.
Infrastructure - transport, broadband and housing	£300m invested in Liverpool2 deep - water container terminal and the £600m Mersey Gateway Bridge Investment. Liverpool2 Set to treble Port of Liverpool container capacity. Mersey gateway = a new 6-lane bridge The proposed Northern Powerhouse rail holds the potential to free up capacity for freight to strengthen our economy as a multi-modal logistics hub.
Business Environment - support structures, growth hubs, trade and investment	Proposed initiatives: Competitive procurement programme, Business leadership mentoring, Premises for new and growth businesses, Extended business start and growth mentoring, Export plan and exporters network Finance Hub and growth funds, Inward Investment, Schools Enterprise
Places - prosperity in the community	Identify and maximise new spaces and places of potential economic opportunity. Capitalise on existing spaces of economic opportunity eg. Mersey Waters Enterprise Zone. Upgrade and rebalance housing offer. Regenerate deprived communities and promote Health and Wellbeing. Adopt a 'whole place' approach to capture the full benefits of growth through local supply chains and public procurement for maximum social impact.

27. <https://goo.gl/jSAU6h> and <https://goo.gl/P5SuU8>

V West of England²⁸

Foundation	Ambition
Ideas - commitment to innovation, entrepreneurship and R&D	Has highest survival rate of new business births among all the English core cities. SETSquared – ranked as the number 1 university incubator in the world. Presence of the Bath Innovation Centre, University of the West of England’s FutureSpace, & the Bristol and Bath Science Park. Home to National Composites Centre Catapult, & Bristol Robotics Laboratory.
People - skills, earning power and job quality	4 world-class universities. Highly skilled, diversified-skills region. Proportion of workforce educated to degree level > national average. Overall employment rate is 78% - one of the highest in the country. Yet locals least likely to go to university. Intends to build up Weston College template to show how FE institutions can play a role in supporting economic development & regeneration eg. the new Law and Professional Services Academy, and the South West Skills Campus Future Technology Centre.
Infrastructure - transport, broadband and housing	Well connected via M4 and M5, although a highly congested region. Has Bristol International Airport & Bristol Port, but expansion of both challenged by constraints on infrastructure: (‘A’ road connection to airport only & withdrawal of the rail electrification proposals to the port). Affordable transport options to link residents in some parts of the region to job opportunities in others is limited in places. Broadband provision needs improvement.
Business Environment - support structures, growth hubs, trade and investment	Strongly internationally connected, of our businesses with a turnover of more than £1million, 59 per cent have subsidiaries abroad. Has Invest Bristol Bath to support inward investment.
Places - prosperity in the community	Low Carbon Economy - Bristol was European Green Capital in 2015. Developing a West of England energy plan with the 4 local councils, a regional framework for energy and climate change. Good natural and historical environmental assets exist for the visitor economy and locals. The West of England councils creating a Joint Spatial Plan - the first of its kind in the UK to deliver strategically integrated housing, employment and transport opportunities.

28. <https://goo.gl/iDX2Uc>

VI Cambridgeshire/Peterborough²⁹

Foundation	Ambition
Ideas - commitment to innovation, entrepreneurship and R&D	World Renown Cambridge University plus plans for new University of Peterborough. In addition to the wealth of strengths in others such as Anglia Ruskin University.
People - skills, earning power and job quality	Will establish an Education Committee with the key local education stakeholders to provide strategic direction on education across the Combined Authority area. CA has responsibility for 16+ education, & will receive 19+ responsibility (excluding apprenticeships) in 2018/19. £7.2m secured from government for healthcare worker skills and training. 551 new apprenticeships delivered with plans for an Apprenticeship Hub. Develop centres of excellence for areas of skills shortage.
Infrastructure - transport, broadband and housing	In receipt of £5m for new Cambridge South Railway station to complement plans for a Cambridge-Milton Keynes- Oxford arc expressway and Cambridge East-West Rail. Good international connections via Stanstead Airport. Advancing proposals for an autonomous metro system. Working with Connecting Cambridgeshire and Broadband Delivery Unit to respond to government's Local Full Fibre's Networks Programme. Committed to delivering 72,000 new homes over the next 15 years.
Business Environment - support structures, growth hubs, trade and investment	Responding to existing pressure for the growth and retention of businesses by facilitating the provision of additional commercial space. Eg. Alconbury Weald Enterprise Campus. It will deliver a Growth Hub to support business growth. CA has worked with GCGP LEP on a regional inward investment strategy.
Places - prosperity in the community	The socio-economic profile of the (GCGPLEP) area shows a distinctive pattern of more challenging outcomes in the north and east of the LEP, reflecting in part the rurality and coastal nature. Addressing this is a sub-theme across their interventions.

29. <https://goo.gl/w7Fscv>; <https://goo.gl/8krD7x>; and <https://goo.gl/QeZJGS>

Local Enterprise Partnerships: Place-Based Industrial Strategy Advocates

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Introduction

This chapter considers the role of place from the level of local enterprise partnerships in England (LEPs). It reports on some early LEP responses to the UK's Industrial Strategy White Paper and particularly its 'place-based' emphasis. Leveraging issues identified in academic literatures around place-based approaches and their implementation¹, we investigated which sectors or activities each LEP identified as their strengths and how they came to identify them. We also wanted to detect whether place-based approaches engendered an inward- or an outward-looking approach. Finally, we explored the LEPs' relationships with central government and what further support, if any, they desired.

Background

Following the abolition of the regional development agencies in October 2010, the LEPs were established. LEPs are a partnership between businesses, local authorities and university and higher education (HE) colleges which work to identify strategic opportunities for the LEP area, and which encourage local stakeholders to invest in the delivery of these. Initially established to be 'light touch' with limited government funding, LEPs have undertaken increasing levels of responsibilities and have been allocated £12bn for 2015-16 to 2020-21 via the Local Growth Fund. Whilst established as 39 functional economic areas, the absorption of Northamptonshire Enterprise Partnership into the South East Midlands Local Enterprise Partnership in March 2017, the continued overlap of LEP activities across different local authorities, and issues arising from their scale means further refinement of the boundaries of these 'functional economic areas' may be necessary in future.

1. Barca, F., et al. (2012). "The case for regional development intervention: place-based versus place-neutral approaches", *Journal of Regional Science* 52(1): 134-152.

Through December 2017 and January 2018 we interviewed 13 senior personnel from ten LEPs: predominantly Chief Executives or Directors, but also Business Development and Partnerships Managers, Economic Intelligence Officers and analysts. Three LEPs reside within a combined authority or an area with devolved powers.

“LEPs are tasked with devising their own local industrial strategies (to be agreed with central government), but have received little guidance in what is required”

Table 6: List of LEPs Interviewed

Enterprise M3 (M3 LEP)	Cornwall and Isles of Scilly (CIOS LEP) – Cornwall Devolution Deal
Greater Lincolnshire	Greater Birmingham and Solihull (GBS LEP) – within West Midlands Combined Authority
Heart of the South West (HotSW LEP)	West of England (WoE LEP) – within West of England Combined Authority (WECA)
Oxfordshire (OxLEP)	Stoke-on-Trent and Staffordshire (SSLEP)
South East Midlands (SEMLEP)	Swindon and Wiltshire (SWLEP)

Response to Industrial Strategy White Paper and Identifying Place-Based Strengths and Opportunities

Generally, there was a positive to neutral response to the White Paper. Many interviewees felt their published strategic economic plans (originally published in 2014, but updated in 2016) had already identified many of the themes contained within the UK Industrial Strategy’s five foundations – ideas, people, infrastructure, business environment and places – and felt reassured. Others were more neutral because they felt the Industrial Strategy revealed little that was new.

LEPs are tasked with devising their own local industrial strategies (to be agreed with central government), but have received little guidance in what is required or what they are designed to achieve². There are various interpretations. Some are leveraging their revised strategic economic plan to formulate the basis for their local industrial strategy; some thought the local industrial strategy would come to replace the strategic economic plan. Others see local industrial strategies as distinct from strategic economic plans, and intend to use their local industrial strategy to put forward an implementation and delivery strategy to bring about the realisation of the opportunities already identified in their strategic economic plans.

The lack of clarity about the meaning of ‘place’ in the White Paper is also evident. On the one hand, ‘place’ is clearly identified by LEPs as their geographical area, in which skills, transport, housing are the

2. BEIS (2017). *Industrial Strategy: Building a Britain Fit for the Future. Industrial Strategy White Paper*. Department for Business. London, Crown Copyright: 1-256.

“The issue of resolving skills bottlenecks is difficult at a local level as skills and education policy remain highly centralised in the UK”

bottlenecks to plans for business growth and innovation; addressing these would generally make their areas better places in which to live. On the other hand, ‘place’ is identified with the underlying strengths of an area in certain economic activities which have emerged from the unique historical political, social, economic and technological evolution of a location, and which have the potential to create and support a range of sectors in the future at the UK and global levels. In academic and EU policy terms this ‘place-based’ view is epitomised in the ‘smart specialisation’ framework^{3,4}.

The issues of housing, transport and skills are long-standing problems for local councils and have fed into the strategic priorities of the LEPs. Over the last seven years, local councils and LEPs have worked together to coordinate the provision of these resources. The valued-added of the LEPs is that they have enabled councils to raise their voices together within larger geographical domains to request funding for infrastructural investments from Whitehall. Moreover, with major national projects such as HS2 and HS3, devolution has enabled LEPs themselves to coordinate strategic priorities for transport across their regions. The issue of resolving skills bottlenecks is difficult at a local level as skills and education policy remain highly centralised in the UK. Despite this, some LEPs have worked with local employers and further education colleges to devise courses that will meet the immediate needs of local business. There is, however, more variance as to whether the courses will meet the longer-term needs of employers in a changing skills-demand landscape (for instance, with the growth of digitalisation and artificial intelligence). Moreover, most of these skills initiatives involved the larger employers. There is still a problem developing the skills provision required by the long tail of small and medium-sized enterprises (SMEs) that exist in each area. There is hope for some progress in areas with devolved powers, towards developing skills provision for predominantly 19+ and adult learners, but for the combined authorities, it is too early to comment on what changes will be affected, let alone the impact the devolution of such powers might have on breaking through the recognised bottlenecks.

With respect to identifying strengths and opportunities, on paper, in their strategic economic plans all LEPs identified particular sectors as the basis for their potential economic growth. Whilst there was some differentiation across the LEPs, there was also much commonality with many identifying the creative sector, digital, advanced or high-value manufacturing, and health as possible sectors of strength and potential. It is, however, hard to reconcile this position within a ‘place-based’ industrial policy given so many (different) places claim to have similar competitive advantages in the same sectors. At a national economy level when places claim to have competitive advantages in the same

3. Foray, D., et al. (2011). *Smart specialisation from academic idea to political instrument, the surprising career of a concept and the difficulties involved in its implementation*, EPFL.

4. McCann, P. and R. Ortega-Argilés (2015). “Smart specialization, regional growth and applications to European Union cohesion policy.” *Regional Studies* 49(8): 1291-1302.

sectors, it appears to pit place against place – leading to a potential waste of resources through duplicated efforts – and invokes a negative-sum game as regions compete intensely for funds. Indeed, competition between places may lead to a rather insular and inward-looking local economy setup. This potential threat has been recognised in the smart-specialisation dialogue at the EU level, where the next phase of the Research and Innovation Strategies of Smart Specialisation programme will focus on building networks between regions with specialised but complementary assets, activities and resources⁵.

However, our interview data reveals two things. The first is that LEPS are able to identify their specific strengths in these broad areas at the more granular level of their underlying capabilities. Indeed, the complexity of the techno-economic environment (as evidenced by the decreasing usefulness of standard industrial classification categories that several LEPS commented on) requires most sectors to combine capabilities from across many domains. As such, it is possible the LEPS claiming advantage in the same sectors actually do possess it, but based on their differentiated (but complementary) capabilities. In our conversations, we found several LEPS expressed a strong preference **not** to identify sectoral priorities, but preferred instead to comment on the opportunities relating to their underlying activities or capabilities, eg. in material science or high-value manufacturing, recognising these as being applicable to many sectors.

The second revelation is that the basis for the claims of competitive advantage in these sectors came predominantly from insights generated from ‘having an ear to the ground’ and perhaps a trust/assumption that the businesses passing them this information have conducted their own intelligence gathering. This is perhaps to be expected; after all, LEPS are business-led economic agents and businesses are the actors most likely to be aware of their sectors’ technological and economic horizons. Business intelligence is also relatively quick to attain for LEPS who have now spent three to six years formulating relationships with their stakeholders. However, it is difficult to objectively assess an LEP’s (actual or potential) competitive advantage relative to other LEPS (and other regions beyond England), without more tangible and robust metrics.

In many cases, LEPS have used Office for National Statistics data to support their notions of competitive advantage; however, the time-lag between collection and publication of this data is largely disadvantageous for planning purposes. LEP areas covered by science and innovation audits also used this data to signal their strengths and areas of potential. But here, LEPS acknowledged these reflected underlying scientific and technological strengths (often associated with local universities) rather than economic ones leading to business opportunities. The pursuit of these may reflect university ‘capture’ of local industrial strategies as the technologies might still be a long way from being market ready or have no currently clearly identifiable demand

5. S3 Cooperation <https://goo.gl/5BKUWq> Accessed 06/02/18.

eg. quantum technologies, or where despite the presence of a strong science base in the locality, there were gaps such as the absence of anchor tenant firms who could provide a bridge to potential users (eg. in marine technologies or agri-tech).

Data also presented a problem for some LEPs in terms of reconciling their efforts in the two separate notions of place identified above. For example, the key performance indicators in which the government seeks improvement (eg. job creation, housing and building completions) which are aligned to the first notion of place and increased prosperity for all, are not necessarily compatible with the second notion of place which focuses on economic strength and productivity. For example, improvements in employment in the foundational economy⁶ would not necessarily contribute significantly or directly to regional productivity. Given both the limited resources of LEPs and, for some, their institutional capacity, it is going to be difficult for some LEPs to deliver programmes targeting the improvement of both notions of place. Whereas some of the more dynamic LEPs have a staff of 25-30 and can draw on a wide range of business, scientific and policy expertise, other less well-endowed LEPs are often run by a skeleton staff of five or six⁷, and may rely upon local authority staff in pursuing projects.

Local Networks, Stakeholders and institutional Capacity

The *raison d'être* of LEPs was to facilitate local business partnerships. Local networks are therefore very important to places but the ability to build coalitions and create a shared focus for a place varies considerably according to LEP context. The idiosyncrasies of place and history mean relationships with businesses are distinct. Some LEPs such as GBSLEP or M3LEP attract large companies like PricewaterhouseCoopers to their cities or have numerous firms who are members of prominent business representative organisations such as the Institute of Directors, Confederation of British Industry and/or Chambers of Commerce. These companies and bodies are keen to contribute or even lead LEP discussions, indeed potentially they can 'capture' the objectives for the wider LEP corpus. On the other hand, rural and coastal LEPs have very few (if any) large business organisations in their region, and few/no firms as members of such bodies, yet have a very diverse business base of micro and small firms who have little time and/or few resources to commit and engage in network building efforts by their LEP body. Similarly, relationships with local councils vary across LEPs. Some LEPs are fortunate enough to deal with a relatively small number of councils who historically collaborate

6. The foundational economy consists of "mundane activities which sustains the infrastructure of everyday life... health education and welfare... utilities, retail and food processing..." From *The foundational economy – rethinking industrial policy*, Andrew Bowman, Julie Froud, Sukhdev Johal and Karel Williams, Political notes by One Nation Register. <https://goo.gl/EWG2o7> Accessed 04/02/18.

7. NAO (2016) 'Local Enterprise Partnerships', Department for Communities and Local Government.

well together, others deal with significantly more local authorities and, in several cases, LEPs overlap in the councils they work with. Moreover, the history of the relationships between councils in some LEPs has been antagonistic. This partially explains why some LEPs are able to generate more comprehensive and cohesive strategies than others, and the timeliness with which such proposals can be created. Nevertheless a fixation on the bigger challenges and objectives they jointly face does appear – on the surface – to overcome these frictions.

The interviewees recognised that the 38 LEPs are too small in both scale and scope to have a strong impact on the global or even national stage individually. Some expected a rationalisation of the LEP structure in future (to possibly around 20 LEPs). In the meantime, what strongly emerges is the fact that the LEPs have not only undertaken responsibility for the development of networks among stakeholders and communities **within** their areas but also across and between LEP areas, in order to generate scale and scope in coordinated projects. This is despite the funding arrangements for LEPs being established on a competitive basis, potentially pitting them against each other.

Inter-LEP networking also seems to work across the two definitions of place. For infrastructural projects in transport, wireless technology and housing, coordination across geographically proximate LEPs is necessary. However, when leveraging their unique capabilities, LEPs recognise they need to also leverage capabilities in other LEPs in order to innovate, build supply chains, or bring new products to market. These LEPs may be geographically proximate (eg. M3LEP and its focus on digital technologies in the Innovation South area), or quite geographically distant (eg. HoTSW and Cumbria LEPs with respect to the nuclear industry). In either case, LEP partners could be described as ‘cognitively’ proximate⁸ in so far as they were seeing opportunities in similar market spaces, or their technological knowledge bases were complementary. There is more scope for these regional relationships to form a detailed part of proposals for sector deals and bids or Industrial Strategy Challenge Funds. In the White Paper the language is a little ambivalent:

Where [sector deal] proposals have a strong link to local economies in particular parts of the UK, we would expect any analysis about their impact to be backed and informed by the areas themselves...⁹

We believe there should be an explicit **requirement** for sector deal applications to stipulate how the proposal links to local economies. Not just in terms of leveraging existing capabilities within specific clusters of strength (which would lead to continued polarisation between

8. Ron Boschma identified five notions of proximity: cognitive, organizational, social, institutional and geographical proximity. Boschma R. A. (2005) Proximity and innovation: a critical assessment, *Regional Studies* 39, 61-74.

9. BEIS (2017). *Industrial Strategy: Building a Britain Fit for the Future*. Industrial Strategy White Paper. Department for Business. London, Crown Copyright p210.

regions), but importantly how they will help to develop emerging capabilities in regions traditionally outside the core clusters, perhaps in capabilities required across the broader supply chain¹⁰.

Whilst there is scepticism that the Northern Powerhouse and Midlands Engine are ultimately 'brands'¹¹, and combined authorities duplicate some of the responsibilities and tasks already established by LEPs (eg. skills development), those LEPs which do not link into such meso-level regional constructs sense it is harder for them to attract attention from government and other investors. As such, there are numerous attempts by various LEPs to generate meso-level regions such as 'The Growth Corridor'¹². Innovation South is a similar attempt to create a meso-level region although not specifically between LEPs¹³.

Relationships between LEPs and Central Government

LEPs have multiple channels available to them to connect to government. These include links built with local MPs and senior civil servants via the Cities and Local Growth Unit. LEPs within devolved combined authorities, the Northern Powerhouse and the Midlands Engine had additional channels. Not all LEPs feel these channels are effective though. There is concern among some LEPs that those who are members of meso-level groupings receive priority treatment and attention at Whitehall. Some LEPs have even created, or are considering creating, staff roles located in London to enhance their visibility with Whitehall.

LEPs seek further direction from government about the objectives for the local industrial strategies. The LEPs appreciate the government's attention is diverted to Brexit, but simultaneously, they understand that local industrial strategies will be agreed by the government in separate rounds, and all are eager to be among the first for consideration in March 2019. Yet we earlier identified divergence in the interpretation of the local industrial strategy as extensions of the strategic economic plan or as documents which define the implementation and delivery plans for issues within their strategic economic plan. The White Paper lacks specific details on the requirements of local industrial strategy.

Another significant concern for LEPs is funding. Three rounds of local growth funds have occurred, which offered the benefit of the simplicity of drawing from a single pot. In addition, some LEPs have benefitted from city growth deals. The funding schemes can tend to favour LEPs, where existing capabilities are strong and hence new opportunities are high. Moreover, the legal structure of LEPs also differs, with some registered as charities and others companies by limited

10. See Morgan in this brief.

11. See Bentley in this brief.

12. Encompassing SEMLEP, Buckinghamshire Thames Valley, Greater Cambridge Greater Peterborough, Hertfordshire, Northamptonshire and Oxfordshire LEPs)

13. It is an M3 LEP initiative to create a network between 100 organisations with specific strengths in digital enabling technologies, across eight southern counties outside London, running from Dorset to Kent.

guarantee, which has allowed some LEPs the opportunity to leverage assets to secure private funding. This has created a structure where some LEPs have been able to access greater resources than others, leading to the charge of ‘two-tier LEPs’¹⁴.

It also seems funding streams are becoming more fragmented with sector deals, industrial challenge funds, the Shared Prosperity Fund and the Strength in Places fund all being proposed in the White Paper. None of these yet provide detail about what is to be available to whom, or transparency about their objectives in specific terms. This is in the face of the removal of European Structural and Investment Funds as we leave the EU. Whilst the devolved areas have additional funds available to them, again those LEPs outside these areas are concerned about their funding sources (and those of the local councils they work with) significantly diminishing, which would threaten the activities and ultimately survival of the LEPs.

The final thing LEPs desired from government was stability. The hope from LEPs is that future funding rounds will be conducted over longer cycles of three to five years. Strategic economic plans were written with long-term objectives in mind – to 2030 in some cases. Yet local growth funds are allocated on an annual basis and very close to the beginning of the next financial year. This impeded the LEPs’ ability to put the more ambitious opportunities in their strategic economic plans in motion. Consequently, some LEPs felt obliged to select ‘low hanging’ fruit so that the money would be spent within the year. Having allocated the funds to various projects at the start of a year, in the event that better opportunities came along, they were unable to be flexible in their use of funds within the year. Sometimes LEPs identified projects they wished to invest in but were not able to spend the funds because they did not allow them to meet the key performance indicators the government was seeking improvement in. Other LEPs identified projects in which investment had been made, but delays and rising costs meant the projects had to be cancelled. There was also some disquiet expressed about the lack of revenue funds and the inflexibility to substitute these for capital funds received. The funding structures seemed to create difficulties for LEPs, making it hard to achieve their longer-term strategic objectives – and LEPs are concerned the lack of clarity on the new funding sources will reinforce these or complicate things further.

Conclusion

For LEPs, the explicit introduction of ‘place’ into the UK industrial strategy is obviously welcome, but at the same time, there is confusion. The notion of ‘place’ has many interpretations for a single LEP (our area, our neighbouring LEPs, or LEP sectoral- or activity-based partnerships). LEPs are attempting to strengthen their own positions by identifying

14. Bentley G and L Pugalis (2013) New directions in economic development: localist policy discourses and the Localism Act, *Local Economy* 25(7): 535–557.

their own sectoral strengths or, better still, their specific capabilities at a more granular level. They are further reinforcing their individual positions by demonstrating their compatibilities with other regions in England and the UK through increased inter-LEP and inter-regional networking. This should serve to benefit the UK as a whole ideally. The latter also helps LEPs overcome some of the constraints they face relating to their scale. However, LEPs need more support from government, both in terms of guidance and clarity in the way in which they are expected to address the balance between prosperity and productivity, on objectives for local industrial strategies, and more transparent, stable funding over longer timeframes.

Studying Firms to Understand Place and Place-Based Policy: A Case Study from the Mersey Dee Cross-Border Economy

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Introduction

Much of the UK government's rhetoric on 'place' is implicitly founded on a city, city region, or clearly identifiable sector-based cluster – yet not every 'place' contains such agglomerations; even if they do, these are not necessarily the most appropriate ways to define 'place'. What does 'place' mean in the absence of such foci? This chapter asks whether studying firms can provide insight into place and inform place-based policy. This is a topical question given the recent publication of both the UK Industrial Strategy¹ and the Welsh Government's² economic action plan for Wales. It draws on findings from case-study research of the Mersey Dee cross-border functional economy.

This reaches from Flintshire and Wrexham in North East Wales, to Cheshire West and Chester, and the Wirral in North West England³. 48 companies were interviewed about their choice of spatial location and inter-firm and institutional relations to uncover knowledge about the Mersey Dee cross-border economy. They include a mix of multi-national enterprises (MNEs) and privately-owned companies that

1. HM Government, (2017). *Industrial strategy: building a Britain fit for the future*. London: HM Government.

2. Welsh Government, 2017. *Prosperity for all: economic action plan*. Cardiff: Welsh Government. Available at: <https://goo.gl/Hh8VDB> (last accessed 18 January 2018).

3. The Mersey Dee is represented at a local authority level by the Mersey Dee Alliance (MDA). When research interviews were conducted, Denbighshire was also a member of the MDA and as a result firms from this local authority are included in the analysis.

“The success of a nation’s (region’s) firms depends on a favourable configuration of four interrelated factors: firm strategy and rivalry, factor input conditions, demand conditions and related and supporting industries”

largely reflect the area’s sectoral specialisms. Firms were selected for having trading and interfirm relations reaching beyond the Mersey Dee, nationally in Wales and England and, frequently, internationally.

The chapter is organised around six sections. The next introduces three different approaches used to characterise the firm-economy in the context of place: industrial sectors (or clusters), urban agglomerations, or those emphasising the segmented nature of the firm economy. Of these, the case study findings suggest that the latter approach most appropriately characterises the firm and place-characteristics of the Mersey Dee. To present this, some grouping of firms is necessary, which are introduced under three headings: ‘incoming firms’, ‘evolved firms’ and ‘indigenous firms’. Place-characteristics of firms within these categories are described in the following three sections. The chapter concludes that local and national institutions will find it valuable to understand how different firms relate to place for the design of local industrial policy.

Interpreting the Firm-Economy

There are different ways to characterise the firm-economy of a locality. This section focuses on three: industrial sectors (or clusters), urban agglomerations and a segmented economy. The first two dominate UK sub-national policy, but I argue that the third deserves greater attention.

An industrial sectors approach is central to sub-national economic policy in England and has been in Wales, although possibly less so under the new national economic action plan². The ‘sector deals’ as a key mechanism to implement the UK’s industrial strategy¹ reflect this approach. Inspiration is drawn from Michael Porter’s industrial cluster or ‘diamond’ model⁴. This suggests that the success of a nation’s (region’s) firms depends on a favourable configuration of four interrelated factors: firm strategy and rivalry, factor input conditions, demand conditions and related and supporting industries. Whilst popular with policymakers, a clusters approach is criticised in the academic literature⁵. Even Porter is sceptical in his advice to the UK government: “overall, the UK does not rank high on measure of cluster development”⁶. The current case study’s findings also provide little support for a sector-based approach being helpful to understanding the Mersey Dee economy, even though it has sectoral strengths – eg. in aerospace, automotive and engineering, energy and financial and professional services.

With the central role of city-wide devolution deals and combined

4. Porter, M.E., (1990). *The Competitive Advantage of Nations*. New York: The Free Press.

5. For example, Duranton, G., (2011). California dreamin’: The feeble case for cluster policies. *Review of Economic Analysis*, 3(1), pp.3-45; Martin, R. and Sunley, P., (2003). Deconstructing clusters: chaotic concept or policy panacea? *Journal of Economic Geography*, 3(1), pp.5-35.

6. Porter, M and Ketels, C., (2003). UK competitiveness: moving to the next stage. DTI Economics Paper No. 3. London: Department of Trade and Industry, p.29.

“Firms were not choosing to locate in the Mersey Dee primarily to benefit from the agglomeration advantages of sharing, matching and learning”

authorities in England and Wales, a second popular approach is to focus on an urban agglomeration framework. This suggests that the co-location of firms may be explained by the three mechanisms of sharing, matching and learning⁷, which are brought together within an urban context. Sharing is the ability to share inputs, suppliers and infrastructure. Matching is the opportunity to access a large pool and range of labour market skills. Learning is the ability to learn from others. This methodology is adopted, for example, by the Centre for Cities to explain the geographical distribution of export-driven firms in the UK economy⁸. The Mersey Dee does have urban spaces. Chester has a mature services economy and Wrexham shows potential for developing one. However, the case study provides limited evidence that urban agglomeration factors have shaped firm location patterns or the character of inter-firm relations in the Mersey Dee.

A third approach is to acknowledge that the locality is characterised as a segmented economy. That is to say, the variety of firms is differentiated across a mix of larger (usually MNEs) and smaller (usually privately-owned) firms⁹. The MNEs will likely form part of an international complex spanning a range of economic activities, organised across national borders. Within this, separate plants will have different operational characteristics, depending on power relations within the company and the functions and technologies for which each plant is responsible. Private firms, many of which are indigenous to the area, may be differentiated between fast-, intermediate-, and slow-growth firms¹⁰. In this setting, location choice, the nature of inter-firm relations and how knowledge transfers across firms and within the locality will vary across different companies, reflecting different firm models.

To develop this theme, a helpful framework distinguishes between pure agglomeration-, industrial complex- and social network-type firms¹¹ (further informed by Markusen’s advice on how to study firms¹²). As indicated above, limited evidence was found in the Mersey Dee for the pure (or urban) agglomeration firm model. That is, firms were not choosing to locate in the Mersey Dee primarily to benefit from the agglomeration advantages of sharing, matching and learning outlined

7. Duranton, G. and Puga, D., (2004). Micro-foundations of urban agglomeration economies. *Handbook of Regional and Urban Economics*, 4, pp.2063-2117.

8. Serwicka, I. and Swinney, P., (2016). *Trading places: why firms locate where they do*. London: Centre for Cities.

9. Taylor, M.J. and Thrift, N.J., (1982). Industrial linkage and the segmented economy: 1. Some theoretical proposals. *Environment and Planning A*, 14(12), pp.1601-1611; Taylor, M.J. and Thrift, N.J., (1982). Industrial linkage and the segmented economy: 2. An empirical reinterpretation. *Environment and Planning A*, 14(12), pp.1615-1632.

10. *ibid*

11. Gordon, I.R. and McCann, P., (2000). Industrial clusters: complexes, agglomeration and/or social networks? *Urban Studies*, 37(3), pp.513-53; Iammarino, S. and McCann, P., (2013). *Multinationals and Economic Geography: Location, Technology and Innovation*. Cheltenham: Edward Elgar Publishing.

12. Markusen, A.R., (1999). Studying regions by studying firms. In *Second Tier Cities: Rapid Growth Beyond the Metropolis*, ed. A. R. Markusen, Y-S. Lee and s. diGiovanna, pp.43-63. Minneapolis: University of Minneapolis Press.

above. Rather, illustrations of the industrial complex and social network models were more commonly observed.

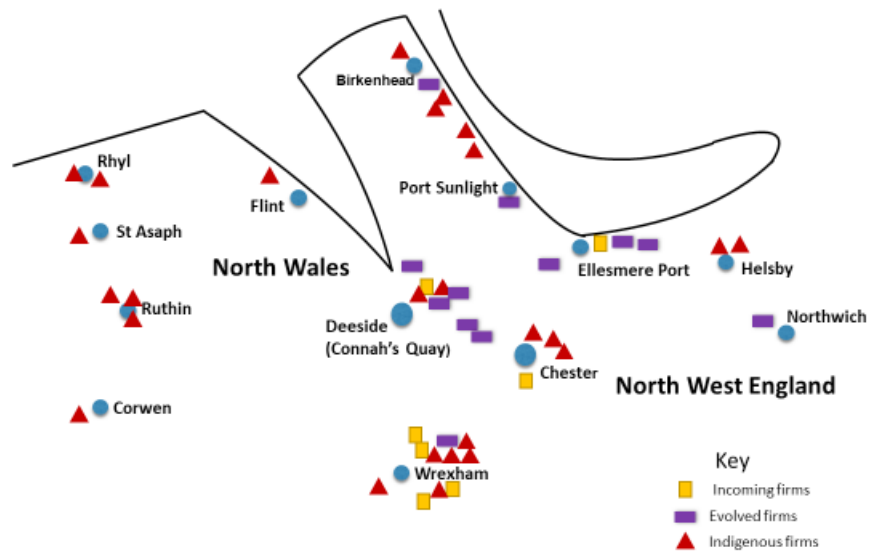
In the Mersey Dee, the industrial complex model is too broad to account for the range of differences observed across this category of firms. To address this, how the company came to invest in the area and how it relates to it today is used to distinguish between 'incoming firms' and 'evolved firms'. Incoming firms are ones where the company that took the original decision to open and invest in a site in the area usually continues to own and develop the business. Evolved firms describe where there has been an evolution of the company. As a first step, it will likely involve a new owner, whose basis for the investment decision may differ from the original company's. However, the evolution is likely to go further through site, product and technology investment, possibly across generations of industrial activity, and potentially over long periods. Whilst mainly comprising MNE firms, privately owned companies can also be found in these two categories, particularly amongst the evolved firms.

Within social network-type firms, Iammarino and McCann (2013)¹³ make a helpful distinction between firms that are centred on customised technologies and those focused on enabling technologies, characteristics which in turn have important implications for the nature of their inter-firm and institutional relations. Both these variations are observed in the Mersey Dee, particularly amongst privately owned firms, who are frequently native to the area. These are distinguished from incoming firms and evolved firms by their owner's personal as well as business ties to the area. Such firms are referred to as indigenous firms.

The following three sections explore insights from the interviews that relate to each of these three groupings of businesses within the Mersey Dee: incoming firms, evolved firms and indigenous firms. Figure 6 overleaf shows the spatial distribution of company research interviews across the Mersey Dee in these three categories.

13. Iammarino, S. and McCann, P., (2013). *Multinationals and Economic Geography: Location, Technology and Innovation*. Cheltenham: Edward Elgar Publishing.

Figure 6: Spatial Distribution of Firm Case Study Interviews across the Mersey Dee



Incoming Firms

These are largely MNE companies that came to the Mersey Dee predominantly in the 1980s and 1990s, although in some cases more recently. The Mersey Dee (and North East Wales especially) was attractive because of its relatively low-cost base (eg. land and labour), good connectivity to urban North West England and beyond into Europe and, due to prior industrialisation, good availability of local skills. In addition, grant incentives and strong support provided by national and local institutions were also important. Incoming firms may be characterised by the nature of their:

- **Supply and customer relations:** Company sites normally operate like a satellite branch plant¹⁴ with few to no supply or customer relations in the locality. The factory is likely to source supplies from abroad, probably organised by the firm's regional (ie. European) or central headquarters. Sales are likely to be to markets within the UK and, possibly, to Europe.
- **Products, technology and knowledge:** The sharing of knowledge (about production and technology, for example) is kept within plants and the HQ of the company, as in the industrial complex

14. Markusen, A.R., (1999). Four structures for second tier cities. In *Second Tier Cities: Rapid Growth Beyond the Metropolis*, ed. A. R. Markusen, Y-S. Lee and s. diGiovanna, pp.21-41. Minneapolis: University of Minneapolis Press.

model¹⁵. It is possible that technologies employed at the plant may not be advanced and products may be relatively mature. This will vary where there has been a process of product reinvestment, as in one recent case with grant aid support from the Welsh Government. Overall, there is likely to be an emphasis on process rather than product innovation, to manage cost reduction and improve site productivity. Products produced at this plant are likely to be replicated at company plants in other international locations – a source of intra-company competition.

- **Institutional relations:** The focus of relations with government, local government and higher and further education institutions will be about ‘anchoring’ the company into the local economy. This is reflected in aftercare and other related services (eg. the ‘anchor’ company scheme in Wales) that seek to retain the company’s loyalty to the locality. Having been located within the Mersey Dee for some 20-30 years, personnel at the plant may have developed local relations, for example with schools and charities.
- **Firm retention:** The plant will need to make the case for its existence within the company continually. This case will be based on at least matching site productivity and costs with other competitor sites in other international locations. Access to markets in the UK (and possibly Europe) is also important to the plant.

Evolved Firms

This is where there has been an evolution of the firm during its history of location in the area. In some cases, there is a long history going back to the Second World War or even the late 19th century. Whilst primarily MNE-owned companies, there are also privately-owned company examples. As indicated above, a basic step is likely to be a change of ownership, with the new owner probably being motivated to invest in the area for different reasons to the original owner. But for the case study firms, generally there has been an evolution of the combination of site, plant, materials, products and skills investment in the firm. Significant sunk investment makes it expensive for a new entrant to open a competing site in the same industry in the locality or even nationally¹⁶. The factory may also benefit over time from good connectivity to markets and access to local skills. Today, such evolved investments are characterised by:

- **Supply and customer relations:** The firm may seek to form a network of suppliers in its local and regional setting, as well as globally; as a result, company sites are more likely to operate like

15. Gordon, I.R. and McCann, P., (2000). Industrial clusters: complexes, agglomeration and/or social networks? *Urban Studies*, 37(3), pp.513-532. and Iammarino, S. and McCann, P., (2013). *Multinationals and Economic Geography: Location, Technology and Innovation*. Cheltenham: Edward Elgar Publishing.

16. Gordon, I.R. and McCann, P., (2000). Industrial clusters: complexes, agglomeration and/or social networks? *Urban Studies*, 37(3), pp.513-532.

a hub and spoke variety¹⁷. The factory may sell to UK markets, but is more likely to operate in European or even global markets than incoming firms. Where there is product specialisation within sites, this may be in combination with other sites within the same company.

- **Products, technology and knowledge:** The sharing of knowledge will be internal to plants and HQ in the same firm **and** with top tier suppliers, as in the industrial complex model. Technologies are likely to be more advanced and products at an earlier phase in the product cycle relative to the incoming firms. The variety of functions undertaken at site may be broader than for incoming firms.
- **Institutional relations:** As with incoming firms, the focus of relations with government, local government and higher and further education institutions will be about 'anchoring' the company into the local economy. However, there are examples of these firms seeking to enhance their technological frontier and market opportunities by adopting enabling or general-purpose technologies by fostering collaborative engagement with institutions (eg. universities). Further, the firm may engage with sectoral bodies in its own industry nationally. Given the firm's often long history in the area, personnel are very likely to engage with universities, further education colleges, schools and charities.
- **Firm retention:** The plant will need to make the case to HQ for new investment to upgrade its products and use of technology continually, as it competes with other company sites in international locations. Access to markets is also an important issue. Because of embedded investment and a likely history of product reinvestment, an evolved firm may have a more stable presence in the locale than incoming firms, unless there is a significant shift the competitive terms of trade.

Indigenous Firms

Although the Mersey Dee has a significant presence of large MNEs, like other areas in the UK it has a predominance of privately owned small- to medium-sized firms. The roots of these companies are very different to those of MNEs. In the Mersey Dee, many privately-owned firms are started up locally by owners from, or close to, the area. The owner may have worked for another firm locally and left to start up a competing firm or one which is related to the activities of the previous employer – eg. moving from farming to instrument and vehicle repair to vehicle manufacturing. Therefore, these firms are deeply embedded into the local economy. However, few of the interviewed firms (with exceptions in aerospace and energy sectors) are supply chains members of, or have other relations with, the MNEs in the area. Companies

17. Markusen, A.R., (1999). Four structures for second tier cities. In *Second Tier Cities: Rapid Growth Beyond the Metropolis*, ed. A. R. Markusen, Y-S. Lee and s. diGiovanna, pp.21-41. Minneapolis: University of Minneapolis Press.

may vary between high growth, intermediate and more slow growth firms. Reflecting lammarino and McCann (2013)¹⁸, at least three models of indigenous firms are identified, of which the latter two are observed more frequently:

- **Model 1: 'urban'**. These firms have few local suppliers, but sell locally and in UK markets. Their trading relations may be transactional, rather than trust based. They may have limited institutional engagement. They are mainly intermediate to slow growth firms. Examples local to Wrexham and in Birkenhead were found.
- **Model 2: 'customised'**. These firms manufacture customised products; a stable base product, with individualised customised variations (eg. furniture, food products). They are observed to have trust-based and long-term supply and customer relations, in their sector through which knowledge is shared. They may be intermediate- to high- growth firms, selling to the UK and possibly overseas markets. They are likely to be locally embedded, including in their institutional relations. Key to firm growth is product innovation, working in combination with trusted customer and supplier relations.
- **Model 3: 'enabling technologies'**. These are firms that apply enabling/general purpose technologies. Suppliers are likely to be chosen on a price/quality basis and customers on a transaction by transaction basis. Relations with other 'collaborative' firms and institutions (eg. universities) may be more trust-based or embedded eg. combining new product development. They tend to be high growth firms, with knowledge shared externally to the firm and drawn from beyond its sector. Key to firm growth is product/ technological innovation, drawing on trust-based collaborative firm and institutional relations.

Conclusions

This chapter has summarised findings from firms interviewed in the Mersey Dee. It has illustrated how these may be viewed through three characterisations of the firm economy: industrial sectors, urban agglomeration and a diversity of segmented investments. Of these, the latter is most appropriate to understanding the Mersey Dee economy. This is reflected in differentiated patterns of incoming and evolved firms and indigenous companies. Within these, there are geographically localised patterns of firm distribution. Wrexham has incoming firms but few evolved companies; the latter are more highly concentrated in Deeside and Ellesmere Port. Denbighshire, by contrast, is dominated by privately owned companies, many of whom are indigenous firms. Together, these reflect varied spatial patterns of industrial history. An appropriate institutional response is to be sensitive to the firm and

18. lammarino, S. and McCann, P., (2013). *Multinationals and economic geography: location, technology and innovation*. Cheltenham: Edward Elgar Publishing.

place-based differences identified above. It requires thinking beyond sectors, and an appreciation that there are differential drivers to firm growth and retention beyond pure cost factors. Firm ownership, history of site, product investment and how new knowledge is accessed and shared by the firm are also important. With a growing shift towards general purpose and cross-cutting technologies, institutions will need to become smarter in linking firms, technologies and places. This suggests that local, sub-regional and national institutions should design an integrated approach towards industrial development appropriate to the diverse character of firms within the Mersey Dee, through to North Wales and into North West England. It also proposes that patterns in the firm economy are likely to vary in different places, so that the character of firms themselves are reflections of place-based differences.

Conclusion

Dr Felicia Fai, Associate Professor of International Business and Innovation at the University of Bath

The White Paper published in November 2017 restated more firmly than before the UK government's commitment to put 'place' among the five foundations of its industrial strategy. In the earlier Industrial Strategy Green Paper (published in January 2017), 'places' was the last and shortest of the ten pillars to be presented; the positioning and relative length of the discussion did not significantly change in the subsequent White Paper. This continues to give the impression that the government has not developed a coherent and well-worked-out account of 'place' in its industrial strategy.

For the devolved administrations of Scotland, Wales and Northern Ireland, the place-based approach to economic growth and industrial strategy is severely threatened by Brexit. Clause 11 of the EU Withdrawal Bill in particular has raised concerns that the UK government will enact a power-grab and reinstate the powers of Whitehall and Westminster over those in the respective Parliament and Assemblies even in areas where they currently have devolved powers – such as rural affairs/ agriculture. Moreover, as powers transfer from the EU to the UK government, the Withdrawal Bill as currently drafted enables the UK government to act in the interests of England and against those of the devolved administrations if it wishes. The administrations want to preserve their devolved powers. Whilst recent discussions appear to be moving in a direction that would enable this, the matter has not yet been settled¹.

Additionally, there are calls from the administrations for further devolution in some of the currently reserved areas, as the implications of Brexit threaten the ability of the devolved administrations to undertake decisions and actions that would serve a place-based industrial strategy. For example, the Scottish government wants additional devolved power over migration, as its net population is projected to decline over the next 25 years. Without significant numbers of immigrants, the Scottish government cannot see how Scottish productivity can grow, even with investment in education, skills and the adoption of new technologies generated by digitalisation and artificial intelligence. During the current interregnum in which power-sharing government is suspended in Northern Ireland, the province's position is being represented by a senior member of its civil service – but it is clear that the preservation of existing devolved powers, and the further devolution of some reserved powers, will be critical to Northern Ireland's ability to negotiate a relationship with the Republic of Ireland in future whilst

1. <https://goo.gl/eG162M>, accessed 24/02/18.

also balancing its relationship with Westminster. In particular, whilst the administrations recognise the need for UK-wide common frameworks in some areas of policy, they are opposed to any imposition of these frameworks from Westminster and insist they must be achieved and implemented by mutual consent. In this context, there is merit in the Joint Ministerial Committee becoming an executive and not simply a consultative body.

Within England, the attempt to generate and implement place-based industrial strategy is a complex and continually evolving process. How the relative roles of the meso-level regions such as the Midlands Engine and Northern Powerhouse will align with those of the devolved regions, mayoral combined authorities and LEPs is yet to come fully into focus. It is not clear whether the current balance of powers represents a waystage to fuller devolution or whether progress towards a genuinely devolved English polity has already stalled. Is the goal of the UK government to encourage the growth of more combined authorities, and should these be with or without mayors? A clearer delineation of roles and responsibilities between combined authorities and LEPs in particular (but also the combined authorities and meso-level initiatives like the Midlands Engine and Northern Powerhouse) needs to be stated².

The government should set out a desired settlement or end state regarding the relative roles and responsibilities of initiatives such as the Midlands Engine and Northern Powerhouse, and structures such as the combined authorities and the LEPs.

The most recent policy focus on ‘place’ in England has been on the devolved regions and especially the establishment of mayoral combined authorities, but there are concerns that no new devolution deals have been announced since March 2016 and no new applications are on the horizon. However, despite having only been elected since May 2017, the mayors of the combined authorities have been vocal as a group calling for further devolved powers, including fiscal devolution so that they have the ability to incentivise and support local job creation and growth. They also want more control to establish return to work initiatives, skills, training and apprenticeships to meet local demand³. Additionally, in a recent meeting, the mayors called for a review of the housing investment funding formulae⁴. Whilst we support the principle of further devolution to the regions within England (and the devolved administrations), we also advise the government to act on this principle within the context of devolving powers more rapidly to **more** local areas or sub-regions. It may be that the conditions for the approval

2. This matter was also raised by the Business, Energy and Industrial Strategy Committee with respect to geographical rebalancing in its first review of the Industrial Strategy Green Paper. <https://goo.gl/533Vhk>, accessed 25/02/18.

3. <https://goo.gl/2yDev1>

4. <https://goo.gl/fHojqJ>

of applications for combined authorities need to be revised in order to do this. Failure to bring devolution to other areas whilst deepening it within the existing mayoral combined authorities (and the Greater London Assembly) will lead to inequality within England, but on different (and additional) dimensions to the ones that have led to current inequalities. LEPs not within combined authorities are already feeling left behind with respect to their ability to generate local prosperity and stimulate productivity.

The government should devolve further powers to the six mayoral combined authorities, particularly over fiscal policy, but ensure that it devolves additional powers to other sub-regions beyond these six.

In our analysis of the six mayoral combined authorities we identified that the current and future sector deals do not capture the entirety of the potential strengths of each of the authorities. This is surely true of other places outside of combined authorities and devolved regions. We support the view of the Industrial Strategy Commission that ‘industrial strategy should be seeking to do something for everywhere’⁵. Sector deals, whilst predominantly a vertical policy, are inherently place-based. The sectors identified by the sector deals have already developed distinctively in specific regions – life sciences in Cambridge, automotive in the Midlands and nuclear in the South West and North West, for example). However, the government could do more to ensure these deals benefit more than ‘the usual suspects’ in the ethos of creating a country that works for everyone. For example, strong regions or clusters that would lead sector deals could develop procurement initiatives that geographically spread the potential benefits of sector deals to other places – by including the use of suppliers from other regions as part of their proposals, for example. Given the increasingly multi-technological environment modern industry draws upon, user-led innovation programmes developed by organisations within the leading cluster could also help the development of new supply-chain based clusters in (emerging) complementary technological areas⁶. Similarly, through training and knowledge sharing, leading clusters could support the institutions and organisations in potential, nascent, and emergent clusters or regions to nurture their latent capabilities in directions that offer longevity of economic opportunity, and bring them to fruition. In this way, the UK can lever leading clusters and regions to help pull up lower-performing regions, so that as a country we advance together and close the disparity in regional economic prosperity and productivity.

5. Executive Summary of The Final Report of the Industrial Strategy Commission, November 2017, p.7.

6. This would be easier to implement for indigenous British companies; it would be much harder to request this of multinational companies whose supply chains are dispersed strategically across the globe.

The Industrial Strategy Challenge Fund (ISCF) and funding associated with the 'Four Grand Challenges' (both of which allow applications to be made outside of the identified sector deals) should require applications to give specific consideration to place. For example, the manufacturing and materials component of the future ISCF is likely to include the graphene cluster in Manchester – long recognised as a scientific pioneer in this material. But it should also seek to include North Staffordshire, a region that has suffered a long period of economic decline, but where the historical knowledge of ceramics is now being used as a springboard for the ambition to develop a world-class cluster in material sciences. Similarly, reading the strategic economic plans of LEPs and combined authorities, it is clear that many perceive they have something to offer in addressing the Grand Challenges; for example, offering themselves as test beds of initiatives in the 'ageing society' grand challenge, given the innovative solutions they are having to devise in response to ageing local populations and increased demands on resource-constrained local authorities and primary care trusts.

The government should make it a requirement for applications for sector deals, the ISCF and the Grand Challenges, to stipulate explicitly how leading clusters can network with other regions and places to encourage their growth in a mutually supportive way⁷ in order to not just leverage the benefits of a particular place, but also to generate economic benefits that are dispersed more widely across the UK.

A new competitive £115m Strength in Places fund was announced in the Industrial Strategy White Paper. However, little is known about its details other than that it will support collaborative programmes between universities and local stakeholders based on research and innovation excellence in places across the UK. Clearly there is a place-based element within this fund, but there is a lack of information about what notion of 'place' is targeted. Is it a fund that seeks to raise existing UK strengths to globally competitive levels, or is it going to support those regions that are currently in the 'second-tier' of strengths in the UK, to raise them to a higher level? This is important, as the former has a more global outlook and is critical in the UK finding its place in the global economy post-Brexit. However, the fund is likely to support existing (globally networked) leading places (and sectors or technologies) if one of the criteria for selection is that the applicant region is host to a **current** or **existing** UK strength. In sum, is the Strength in Place fund designed to narrow regional disparities, or support innovation in existing institutions and their localities, wherever they are found?

7. The language in the Industrial Strategy White Paper is rather weak in its expression of place-based implications within sectors deals.

The government should make it clear whether the Strength in Places fund is designed to support global competitiveness or the narrowing of regional disparities in economic activity across the UK.

There is an underlying tension within the government's Industrial Strategy between its ambitions to raise UK productivity **and** to create a country that truly works for everyone. This was explicitly identified by some LEPs we spoke to and some feel rather uneasy about their ability to deliver both. There is an implicit assumption that increased prosperity and increased productivity go hand in hand, either concurrently or sequentially. Hypothetically, addressing the five foundational pillars in a complementary manner should allow the delivery of both. Cities and industrial clusters have the greatest chances of delivering improved productivity **and** prosperity, as advocated by the Centre for Cities, but even in highly productive cities, not everyone prospers. The uncoupling of real wage growth from productivity growth in recent decades, and high employment levels in low wage, low productivity sectors, is testament to this.

In this brief we have highlighted that there are many areas in the UK that have no clearly identifiable agglomeration of highly productive economic activity. Some areas are not host to firms and sectors that contribute significantly to high levels of productivity; the industrial strategy does not resonate with them. Indeed, not all places in the UK will be able to benefit from all five foundations of productivity identified in the White Paper, with the absence of local universities so vitally (although not exclusively) important within the 'ideas' foundation, or growth hubs to create and support the business environment in the 'business environment' foundation. Many areas beyond the cities and industrial clusters are based on sectors that do not generate high levels of productivity such as retail, tourism and culture, and health and social services. However, these sectors create jobs for people, and many people find these jobs satisfying. These sectors can make areas better places to live⁸. When combined with improved transport and communication infrastructures, and better education and skills training that lead to improved incomes, identified, designed and delivered at a local level, these places can become more prosperous even if not significantly more productive.

The government should clarify whether it expects all regions to increase both productivity and prosperity, or whether the pursuit of broadly based employment is a sufficient objective around which devolved authorities, LEPs and other regional agencies can structure local plans and initiatives.

In sum, this brief highlights the lack of clarity about the notion and role of 'place' in the Industrial Strategy White Paper. Its treatment of place

8. This point is explicitly recognised in the Welsh *Prosperity for All: Economic action plan* (December 2017), in their recognition of the importance of, and support for, the foundation economy.

as an additional part of industrial strategy, as opposed to integral to it and pervasive across all of its parts, is likely to generate tensions and divisions across the UK by: potentially preserving the status quo of overly centralised power at Westminster and Whitehall relative to the devolved administrations; furthering the strength of currently leading industrial clusters over sub-regions that do not possess these; or creating an increasing division between combined authorities in England and other English localities. There is a need for the government to think more deeply about the incorporation of place within the implementation of the industrial strategy to ensure that UK productivity not only increases, but increases for as many places as possible. This should be supported by mechanisms to facilitate cooperation between regions. The government must also explicitly state that it may not be possible for all places to contribute to improved UK productivity. However, it is possible for the industrial strategy to be implemented so that it improves the quality of life in, and raises prosperity of, every place in the UK.

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